सत्यमेव जयते

REPORT OF THE COMMITTEE

ON

CREDIT FACILITIES

FOR

VILLAGE & SMALL INDUSTRIES SECTOR

GOVERNMENT OF INDIA
PLANNING COMMISSION

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FOREWORD

The Village and Small Industries are considered to be an important instrument for promoting rapid industrial growth in as much as they provide very substantial employment opportunities, remove economic backwardness and bring about a reduction in regional disparities.

On the recommendation made by the All India Small Scale Industries Board at its meeting held in August, 1982, the Government constituted a Committee to look into the wider policy issues and problems of lending to the village and small industries and to make appropriate recommendations.

At its first meeting held on 30th September, 1983, the Committee constituted three groups, one each under the Convenorship of Shri Harbhajan Singh, Chief Officer, SI & SB Banking Department, SBI, Bombay, Dr. S. A. Dave, Executive Director, IDBI, Bombay, and Shri D. N. Davar, Executive Director (now Chairman and Managing Director), IFCI, New Delhi. I am grateful to the Convenors and members of the three groups who undertook field visits and made an indepth study of the various problems faced by the village and small industries in respect of inadequacy of credit to this sector in the light of the terms of reference given to them and made valuable suggestions and recommendations for the consideration of the Committee.

I place on record the cooperation and assistance received from the members and representatives of the Khadi and Village Industries Commission (KVIC), the Reserve Bank of India (RBI), the Industrial Development Bank of India (IDBI), the Industrial Finance Corporation of India (IFCI), the State Bank of India (SBI), the National Bank for Agriculture and Rural Development (NABARD), the Development Commissioner (Small Scale Industries) and the Planning Commission during the course of discussions in the meetings as well as in the preparation of this report. The active role played by the associations of small scale industries and several knowledgeable persons and the assistance extended by the State Governments warrants much appreciation.

I would further like to place on record the commendable work done by the Member Secretary, Shri P. P. Khanna, Additional Secretary and Development Commissioner (Small Scale Industries)

and Shri R.P.S. Verma, Economic Adviser, Office of the DC(SSI) in preparing the report and providing necessary secretariat support.

I extend my thanks also to the IDBI for rendering assistance and providing facilities for organising the meetings of the Committee.

(A. M. Khusro)

Dated the 31st December 1984.

PREFACE

The village and small industries sector comprising khadi, village industries, handlooms, handicrafts, coir, sericulture, powerlooms, small scale industries, etc., has been estimated to provide employment for 31.5 million people in 1984-85, next only to agriculture. During the Seventh Plan (1985-90) additional employment of 8.5 million persons both part time and full time, is expected to be generated. This sector also contributes about 50% value added in the manufacturing sector. Viewed against their importance and performance there has not been commensurate credit flow to this sector from the commercial and financial institutions. This has been a subject of discussion in various forums and the 36th meeting of the All India Small Scale Industries Board made a specific recommendation that a committee may be constituted to look into the wider policy issues and problems of lending to the village and small scale industries and to make appropriate recommendations. Accordingly, in August 1983, the Planning Commission constituted the committee under the chairmanship of Prof. A.M. Khusro, the then Member of the Planning Commission.

The streamlining of the procedures for lending, the coordination of efforts by lending institutions, the policies for augmentation of credit flow to this sector of industries, the examination of terms and conditions under which credit is being extended and special initiatives that are needed to promote this sector, the weaning away of this sector from middlemen financiers and the commercialisation of activities as a viable proposition had been the guiding factors in the deliberations of the committee.

The committee had made a special mention of the need for reorienting the attitude of bank personnel as well as the promotional agencies through intensive training programme with appropriate behavioural inputs. It has also suggested weightage for the initiative taken by bank personnel for extending coverage to the village and small industries sector in adjudging their performance. Building an element of incentive in the Transfer Price Mechanism to motivate Branch Manager to give special attention to this sector has also been mentioned in the report.

The report of the committee was examined by various departments and ministries and considered at a meeting held in the Planning Commission. Following the recommendations of the committee,

a Small Industries Development Fund (SIDF) was established in May, 1986 by the IDBI as a separate division with an Executive Director and with a adequate financial support. This division was to be the focal point for augmenting credit to the small scale industries. Several new initiatives have also been taken by IDBI/NABARD, for example (i) liberalisation of credit under the composite loan programme, (ii) expansion of limits for working capital for handlooms, etc. (iii) margin money assistance at 1% interest for seed capital, (iv) special liberalised schemes for modernisation, rehabilitation, woman entrepreneurs, quality improvement, pollution control, etc.

Considerable input for the deliberations of the committee was given by the Village & Small Industries Division of the Planning Commission. Special mention may be made of Senior Research Officers—Shri D. N. Desai and Smt. Ganga Murthy, who inter alia took up the responsibility of drafting few chapters of the report.

The Planning Commission had taken a decision that all efforts may be made to release for public information, awareness and education, various reports, papers and other documents prepared from time to time and as a sequel to this decision, this report is being published for public information. I hope the report of the committee would be useful for all those interested in the development of the dispersed sector of the industries, researchers, academicians, etc.

(K. V. S. Murthi)
Consultant
Planning Commission

New Delhi
the 24th July, 1987.

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CHAPTER I

INTRODUCTION

Constitution of the Committee

1.1 There have been frequent representations from the village and small scale industries that the policies and procedures for providing financial assistance to this sector need streamlining in order to make available adequate and timely flow of credit. This matter has been discussed in various meetings of the All India Small Scale Industries Board and its Standing Committees. In the 36th Meeting of the Board held in August 1982 a specific recommendation was made that a Committee be constituted to look into the wider policy issues and problems of lending to the village and small scale industries and to make appropriate recommendations.

1.2 The need for constituting such a Committee was further emphasised after the introduction of New 20-Point Programme in which village and small scale industries have been accorded high priority. Accordingly, in August, 1983, the Planning Commission constituted a Committee under the Chairmanship of Professor A.M. Khusro, Member, Planning Commission, with the Development Commissioner, Small Scale Industries, as its Member Secretary.

Composition of the Committee

1.3 The Committee consisted of the following:—

1. Professor A.M. Khusro, Member, Planning Commission, New Delhi. — Chairman
2. Dr. M.R. Kotdawala, (replaced by Shri R.P. Satpute) Chief Officer, Rural Planning & Credit Department, Reserve Bank of India, Bombay. — Member
3. Dr. S.A. Dave, Executive Director, Industrial Development Bank of India, Bombay. — Do.
4. Shri A. Sathyamoorthy, General Manager, National Bank for Agriculture and Rural Development, Bombay. — Do.
5. Shri K.K. Saksena, General Manager, Deposit Insurance & Credit Guarantee Corporation, Bombay. — Do.
6. Shri D.N. Davar, Executive Director, (Now Chairman), Industrial Finance Corporation of India, New Delhi. — Do.
7. Shri Harbhajan Singh, Chief Officer, SI & SB Banking Department, State Bank of India, Bombay. — Do.
8. Shri Ashok Chandra, (replaced by Shri A.K. Agarwal), Joint Secretary, Ministry of Finance, Deptt. of Economic Affairs, (Banking Division), New Delhi. — Member
9. Shri S.B. Jain, Additional Secretary, (replaced by Shri G. Venkataramanan, Joint Secretary), Ministry of Industry, Department of Industrial Development, New Delhi. — Do.
10. The Secretary, Ministry of Commerce, Department of Commerce, New Delhi. — Do.
11. Shri D. Mehta, Joint Secretary (F), Ministry of Rural Development, New Delhi. — Do.
12. Shri K.V.S. Murthi, Adviser (VSI), Planning Commission, New Delhi. — Do.
13. Dr. V.G. Bhatia, Adviser (MP&D), Planning Commission, New Delhi. — Do.
14. Shri A.P.V. Krishnan, 128, Sarvodaya Enclave, New Delhi-110016. — Do.
15. Shri V.K. Dar, (replaced by Sh. P.P. Khanna on taking over), Additional Secretary and DC (SSI), New Delhi. — Member Secretary

1.4 Later on, two more members and three permanent invitees were added to the Committee. The names of these members/permanent invitees are given below:

1. Shri D. Bandyopadhyay, Adviser (RD & Coop.), Planning Commission, New Delhi. — Member
2. Shri F.J. Vaz, Chairman, Council of Small Industries Corporations in India, New Delhi. — Do.
3. Shri A.M. Thomas, Chairman, Khadi & Village Industries Commission, Bombay. — Permanent Invitee
4. Shri S.K. Misra, Development Commissioner (Handlooms), New Delhi. — Do.
5. Shri Shiromani Sharma, Development Commissioner (Handicrafts), New Delhi. — Do.

Terms of Reference

1.5 The Terms of Reference of the Committee were as follows:—

(1) To review the operation of the various kinds of credit facilities presently available to the different sectors/groups of the Village & Small Industries including the tiny and service sectors, and the impact of the present policies in channeling an increasing proportion of institutional finance to meet the needs of the Village and Small Industries Sector;

(2) To examine the adequacy of the policies and procedures and the institutional arrangements that exist for easy flow of term-loans to the Village and Small Industries;

(3) To explore the possibilities of streamlining the policies and procedures with a view to introducing a measure of uniformity in the terms and conditions of financing;

(4) To define the role of various organisations such as RBI, NABARD, State Financial Corporations, Commercial Banks, Deposit Insurance and Credit Guarantee Corporation, and to suggest measures for their effective coordination;

(5) To suggest suitable delegation of authority and guidelines for implementaton of procedures and policies and to recommend appropriate monitoring mechanism for identifying and removal of the impediments to credit flow;

(6) To recommend policy measures to overcome the existing handicaps and additional facilities that might be required to meet the objectives of the plan;

(7) To identify action that should be taken by small scale industry units/Small Industries Service Institutes, State Directorates of Industries, DICs, etc. to facilitate the flow of institutional finance;

(8) To analyse the need for establishment of a National Equity Fund and to recommend a suitable organisation, its constitution, guiding principles, financing, etc.;

(9) To deal with any other related problems in extending credit to the Village and Small Industries, and also to recommend appropriate remedial measures; and

(10) To examine the need for having an Apex Financial Institution to cater to the needs of the Village and Small Scale Industries Sector.

Approach and Methodology

1.6 At its first meeting held on 30th September, 1983, the Committee constituted three groups. They were asked to make an in-depth study of each term of reference allotted to them and make specific recommendations for the consideration of the Committee. The composition of the three groups and their terms of reference are given in Annexure-I.

1.7 Apart from soliciting information from the identified agencies/institutions through a questionnaire, the groups went around various centres of concentration of village and small industries in the country and held discussions with all concerned like bankers, industrialists and their associations and developmental field agencies. In order to draw upon the experience and expertise of the State Governments, a letter was addressed by the Chairman to the Ministers of Industries of State Governments requesting them to make available information/data on certain aspects having a bearing on the terms of reference of the Committee (Annexure-II).

1.8 The reports of the groups were considered by the Committee at its meetings held on 21st February, 20th March, and 16th July, 1984 and thereafter a draft report was prepared and discussed by the Committee at its meetings held on 17th August, 11th September, 9th October, 13th November and 14th December, 1984.

CHAPTER II

SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

For convenience of analysis and understanding in this Report the Committee deals generally with the village and small industry (VSI) sector as a whole, or with the following two sub-sectors or components of VSI:

(a) Small Scale Industry Sector (with plant and machinery upto Rs 20 lakhs, or in the case of ancillaries, upto Rs 25 lakhs. Within the small scale industry sector, units with less than Rs. 2 lakhs value of plant and machinery are sub-classified as the tiny sector.)*

(b) Decentralised Sector:

(i) Khadi and Village Industries (including handlooms, handicrafts, coir, sericulture etc.)

(ii) Village artisans.

2.1 In order to facilitate the dispersal of small scale units away from metropolitan areas, the Committee is of the view that the concessions and facilities now admissible to small scale industry (SSI) units, with the exception of tiny units, should not be extended to new units to be set up in the metropolitan areas. (3.6).

2.2 The increased flow of institutional finance in the village and small industry (VSI) sector has not covered the artisans sub-sector adequately and that sector continues to depend for a major part of its capital requirements on non-institutional sources from which credit can only be obtained at exhorbitant rates of interest. The Committee is, therefore, of the view that a distinctly sharp focus needs to be given to tiny, cottage and village units as compared to other SSI units. Adequate concessions and facilities should therefore be provided to tiny, cottage and village industries. In the case of other SSI units the existing concessions should be graded slab-wise. (3.5 & 3.6).

2.3 To link the investment criteria with the definition of village and cottage industries, it is recommended that for purposes of concessional finance, criteria based on investment per artisan be adopted for village and cottage industries. (3.14).

2.4 The Committee observed that the Industrial Development Bank of India (IDBI) has evolved special schemes for financing smaller/rural industrial estates on concessional terms to enable the village and cottage industries sector to set up small units. However, the response to such schemes has not been satisfactory. The IDBI may examine the causes of poor response and take remedial measures. (4.7).

2.5 The National Bank for Agriculture and Rural Development (NABARD) has also constituted task forces on various sub-sectors of decentralised industries viz khadi & village industries, handicrafts, handlooms, sericulture, coir etc. After consideration of the various reports of the task forces, the Committee suggests that the task force reports should be examined expeditiously and recommendations implemented suitably to give a thrust to the flow of credit to the aforesaid sub-sectors. (4.13).

2.6 By and large, the net-work of the banking system has spread in line with the needs of institutional finance of this sector. However, there is scope of further improvement in the functioning of the existing credit delivery mechanism at the grass-rot level so that the flow of credit to the VSI sector increases during the next decade. (4.22).

2.7 The Committee reiterates the need for activizing/promoting industrial cooperatives so that the artisans could organise themselves to get various support services including credit from the cooperative banking system. (4.23).

2.8 The Committee is of the view that Regional Rural Banks (RRBs) be made an integral part of an effective delivery system for increasing credit flow to individual artisans and village/cottage industries. The Branch Managers of RRBs should be empowered to sanction loans upto Rs. 25,000/- (Composite Loan Scheme). However, where bulk advances are required by registered institutions and State Khadi and Village Industries Boards (KVIBs) in excess of Rs. 25,000/- the credit needs shall be met through the commercial banks. The organisational structure of RRBs, particularly at the branch level, should be suitably strengthened so that their share of lending to village and cottage industries records a gradual increase over the years. (4.25 & 4.26).

2.9 There is need for effective coordination and integration of efforts between commercial banks and RRBs in respect of their lending operations to village and cottage industries. The Committee is of the view that the RBI, the IDBI and the NABARD should work out modalities of such cooperation for promoting credit flow in an integrated manner to village, cottage and tiny units including training of RRB officers. (4.27).

2.10 The Committee, after examining the viewpoints expressed by different organisations, is of the view that having regard to the role that the commercial banks are expected to play in the promotion of

*After the completion of the Draft Report, the definition of small scale/ancillary industry has been revised to Rs. 35 lakhs and Rs. 45 lakhs respectively in the Central Budget. 1985-86.

village and small industries, the present organisational structure needs to be considerably strengthened at various levels in general and at the branch level in particular. There are far-reaching implications of this suggestion, since strengthening of commercial bank branches at field level will involve administrative cost which might result in further erosion of banks' profitability. Therefore, the Committee is of the view that the network of the banking system at the grass root level needs to be planned better. There is an urgent need for coordination among the different banks so as to achieve the overall national objective of larger credit flow to village and cottage industries at minimum cost. The coordination between different banks will be in the sphere of demarcation of operations and other related aspects so as to bring a larger segment of village and cottage industries within the fold of existing institutional structure. (4.28).

2.11 The lead bank has played an important role in the preparation of credit plans of the district and its follow-up for effective implementation. The credit plans need to be more effectively coordinated/dovetailed with the district development plans and the District Administration has to provide basic support so that the plan is properly formulated and systematically implemented. The thrust of the District Credit Plan is more on agricultural and allied activities rather than on village and small industries. There is need for preparation of detailed credit plan for the VSI sector and the participating banks have to play a significant role in sharing the credit requirements of the ditsrict so far as they relate to village and small industries sector. (4.29).

2.12 The Committee is of the view that among the primary credit institutions at the grass-root level, co-operative banks and RRBs should increase their lending to village and cottage industries. The commercial banks and State Financial Corporations (SFCs) should not only continue to extend credit to the organised small scale industries including the tiny sector and to the village indusries, but take positive steps to promote further flow of credit to the village, cottage and tiny sector for which specific targets may be fixed. (4.30).

2.13 With a view to bringing the village, cottage and tiny sub-sectors within the fold of institutional finance, a major policy thrust needs to be given so as to build up a sharp focus to this sub-sector. In this context, the Committee recommends that the Reserve Bank of India may fix sub-targets for these sub-sectors of the VSI sector. (5.3).

2.14 Most of the banks in the rural areas have achieved the stipulated credit-deposit ratio of 60%. The Committee recommends that suitable steps be taken by the Reserve Bank of India to enable the remaining banks to achieve the stipulaed minimum credit-deposit ratio in rural areas. (5.5).

2.15 In regard to semi-urban areas, on an overall basis, performance in terms of credit-deposit ratio is around 51%. The Committee recommends taking corrective measures by the Reserve Bank of India to achieve the minimum stipulated credit-deposit ratio of 60% by all the banks in semi-urban areas. (5.6).

2.16 Under the Differential Rate of Interest (DRI) Scheme, overall performance by the banking institutions is around 1.1% of the outstanding advances as at the end of 1982. The Committee recommends that suitable remedial measures be initiated by the Reserve Bank of India so that the banks which are lagging behind also achieve the limits laid down. (5.7).

2.17 The NABARD has formulated a scheme for extending refinance facility under the Industry, Service and Business (ISB) component of Integrated Rural Development Programme (IRDP) from January 1983. The trend in the assistance under this activity in the first half-year of its operation reveals that the bulk of assistance under ISB component in some of the States has gone to business activities. There is need for a proper balance between the three components so that the other two components of industry and service also get adequate financial assistance from institutional sources. (5.9).

2.18 The Committee recommends that NABARD should undertake a quick review of assistance under ISB component and initiate remedial measures to rectify the imbalance mentioned earlier noticed in respect of lending under this component. The Committee is also of the view that there is need for build-up an effective monitoring mechanism by NABARD in this regard. (5.13).

2.19 The Committee has examined in detail the problems at the grass root level for identification of beneficiaries under IRDP. It is clear that the agencies at the grass root level need to reorient their policies significantly so that the beneficiaries are identified in the systematic manner and bankable schemes are formulated. (5.10).

2.20 The Committee recommends that there is scope for further strengthening of coordination between the District Industries Centres (DICs) and the District Rural Development Agencies (DRDAs) for effective implementation of ISB component of IRDP. Further, the Committee recommends that DIC and DRDA should each have an officer dealing exclusively with small. village and cottage sector industries where such placements have not yet been effected. This would facilitate proper identification of beneficiaries and schemes to promote balanced growth under the ISB component of IRDP. (5.11).

2.21 The Committee finds that DICs/DRDAs are primarily responsible for the formulation of viable schemes. The proposals should be discussed by DICs/DRDAs with the concerned banks before they are forwarded to the banks. This brings into focus the need for strengthening the coordination between DICs/DRDAs and the banks. The Committee is of the view that in cases of rejection of loan applications, a Committee consisting of representatives of DIC, DRDA and the lead bank should review the reasons for rejection and assist in the preparation of a viable scheme. (5.12).

2.22 Discussions with various organisations connected with promotion of VSI sector reveal the need for reorienting the attitude of bank personnel as well as of promotional agencies. The attitudinal changes can be brought about by way of intensive training programmes with appropriate behaviourial inputs. The Committee recommends that the following steps be initiated in this regard urgently:

(i) Training capacity in institutions/centres should be effectively utilised and where necessary, enhanced.

(ii) The course content of the programme should give greater emphasis to motivational and behaviourial aspects.

(iii) The number of programmes and their frequency should be increased.

(iv) There should be appropriate training of trainers. (5.14).

2.23 The Committee recommends that besides other parameters, the performance of the officer should be judged in terms of initiative taken in extending coverage to the VSI sector. Employee Appraisal System, where necessary, should be modified accordingly, keeping in view the risk of failure inherent in lending under this sector, particularly when financial assistance is to be provided to weaker sections without security for activities where viability may depend to a large extent on factors beyond the control of the borrower. In short, the innovative and constructive role of a Branch Manager should be given due weightage while appraising his performance. (5.15).

2.24 The Committee recommends that the 'Transfer-Price-Mechanism' operating in various banks should be given a fresh look in order to build into it an element of incentive, if it is not already there, and to keep the Branch Manager motivated for playing his role in increasing the flow of credit to artisans, village/cottage industries, tiny and SSI units. (5.16).

2.25 The Committee is of the view that the State Governments should take necessary steps to post Credit Managers to the DICs, wherever they have been withdrawn by the lead banks, so that the programmes of assistance to the VSI sector do not suffer. (5.17).

2.26 The Committee is of the view that there is need to strengthen the DIC set-up. This strengthening should ensure that the prescribed technical personnel are in position. Suitable training programmes should be organised for updating skills of these personnel. (5.18)

2.27 The major reason for the poor performance of the scheme so far appears to be the attitude of the Bank Managers who generally do not have a developmental approach as expected under the scheme. The findings also confirmed that though there has been sufficient delegation of power at the level of Branch Managers and the scope of the scheme is explicit and liberal, the performance is far short of needs and expectations. There have been substantial communication gaps between those who formulate the policies and those who are ultimately expected to implement them. In view of the rather disturbing findings, the Committee suggests that Reserve Bank of India should continue to monitor these aspects periodically for suitable remedial actions by the banks. (5.25)

2.28 An inhibiting factor identified in the case of the Composite Loan Scheme (CLS) is the absence of suitable accounting procedure. Provisions for items like moratorium, simple rate of interest and break-up of advance data would necessitate changes in existing Book-keeping/Accounts. The Committee suggests that the RBI should prescribe a uniform accounting procedure for all banks. (5.26)

2.29 In the light of the experience gained, the Committee would like to suggest some changes in the Composite Loan Scheme. The initial moratorium period under the scheme should be restricted to 12 months. The repayment period of the loan should be linked to the surplus generated by the unit with a maximum of 5-7 years. (5.27)

2.30 The Committee recommends that the Inter Disciplinary Group should be activated. It should function as a high powered body to give suitable guidelines to the banks in the matter of extending assistance to the decentralised sector. With the active representation of the Khadi and Village Industries Commission (KVIC), Handloom and Handicrafts Board etc. it should be possible to devise suitable bankable schemes of an area-specific or activity-specific nature. This group should also go into the operation of the Composite Loan Scheme and see how best this scheme could be modified for ensuring increased flow of assistance to the decentralised sector. (5.28)

2.31 The Committee notes that the Interest Subsidy Scheme introduced by the Government of India in May 1977 has been working quite satisfactorily and recommends its extension to individual small entrepreneurs. (5.33)

2.32 It has been observed that in regard to the Interest Subsidy Scheme, the differences between KVIC and banks relate mainly to procedural aspects. The Committee suggests that a Standing Committee comprising representatives of KVIC, KVIB, RBI, NABARD and IDBI may be constituted to sort out the differences. (5.34)

2.33 The Committee considers that credit for working capital and investment needs may be made available by the banks to Handloom Development Corporations on concessional rates of interest as applicable to weavers in the cooperative sector. This would amount to a reduction in the rate of interest of about 2 per cent which should be shared equally by the Central and State Governments. (5.35)

2.34 It is suggested that whenever the working of a weavers co-operative society is satisfactory but adequate credit is not flowing to it owing to the

weakness of the Central Co-operative Bank, the possibility of financing weaver societies directly by the State Co-operative Banks or through RRBs should be explored. (5.36)

2.35 The Committee suggests that each State Government should make available atleast a part of the budgetary provision made by it towards rebate every year to the apex weavers' society in the beginning of the year. This can be credited to a separate fund with the apex society designated as Rebate Adjustment Fund. As and when rebate claims are settled during the year, the payments made by the Government may also go to this fund till such time as the budget allocation is fully utilised. (5.37)

2.36 As far as co-operatives are concerned, the pattern of financing applied to the co-operatives in the handloom sector should be followed in the handicraft sector too. The State Government should extend 3% interest subsidy to handicraft co-operatives as well. NABARD may also consider raising the quantum of working capital to 50% to handicraft societies as against 40% in case of handloom societies. (5.38)

2.37 The Handicraft Development Corporations which normally avail of cash credit facilities from commercial banks mainly for meeting their working capital requirements against the security of hypothecation of handicraft items should be allowed the same concessional rate of interest on which the bank advances are being made to handicraft artisans. This would amount to a reduction in the rate of interest of about 2 per cent which should be shared equally by the Central and State Governments. (5.39)

2.38 Where co-operatives are constituted for financing sericulturists' activities, sericulturists might be financed by commercial banks or RRBs in the areas where co-operatives are weak. Where primary societies are functioning satisfactorily but District Central Co-operative Banks are weak and unable to obtain refinance from NABARD, such societies may be financed directly by State Co-operative Banks or they may be allotted to the RRBs if they have been established in rural areas. (5.40)

2.39 One of the major problems in the sericulture schemes is the in-eligibility of sericulturists for fresh credit on account of their past defaults. In order to push through the programme, it is necessary that some relaxations be made at least in the case of non-wilful defaulters. Defaulters who have repaid at least 50% of the demands should be considered as non-wilful defaulters and given fresh loans for maintenance and rearing after converting their outstanding dues into medium-term loan repayable in three years in convenient instalments. Such non-wilful defaulters should also be given fresh loans for minor irrigation, new planting, rearing equipments and rearing houses. In future whenever crop failure occurs on a large scale, the State Governments should examine the position in consultation with the financing banks and NABARD. (5.40)

2.40 At present, no part of the limit sanctioned to a bank by NABARD can be utilised by it for financing a society which is engaged in the sale of coir products not produced on its own account by its members. NABARD should consider providing refinance facilities on liberal terms as also for building up of a nexus with the National Co-operative Development Corporation (NCDC) with a view to formulating such schemes for financing the coir sector. (5.41)

2.41 The State and District Central Co-operative Banks should be asked by the State Governments/ NABARD to take active interest in obtaining credit limit applications from the societies in time, scrutinising them without delay and forwarding the same to NABARD through proper channel within the stipulated time every year. The Committee is of the view that the procedure in this regard should be streamlined by NABARD and should be made abundantly clear to the coir workers and artisans. Considering the fact that the turnover of the coir products takes place once in 6 months, refinance facilities for working capital requirements from NABARD may be raised from 40% to 60% of the anticipated sales. (5.42)

2.42 The Committee is of the view that norms prescribed by banks in assessing the working capital requirements of small scale industries should be re-examined by the Reserve Bank of India and suitable guidelines issued to banks. (5.45)

2.43 The Committee after considering the suggestion recommends that as far as possible there should be a single window dispensation for village and tiny sector industries to avoid the problems referred to earlier. The Committee suggests that a mechanism similar to inter-institutional machinery evolved by all India term lending institutions needs to be established for effective coordination between the lending agencies. The State level forums should meet periodically, say once a month, to discuss proposals received for consideration of financial assistance, where all aspects of the proposals including the working capital requirements could be discussed in depth and a view regarding the proposals taken. (5.46)

2.44 The Committee suggests that the scope of the District Credit Plans should be further widened to include requirements of credit for the village, cottage and handicrafts etc. industries and for the tiny and other small scale units. Accordingly, steps can be initiated by promotional agencies and banks for identification of entrepreneurs, training of entrepreneurs, formulation of schemes, sanction of financial assistance, sharing of finance by various banks and sharing of term loans by SFCs and banks on a systematic basis. (5.47)

2.45 The Committee is of the view that the performance of the State Small Industries Development Corporations (SSIDCs) and other agencies engaged in supply of raw materials and marketing facilities to VSI sector needs to be evaluated with a view to re-orienting their policies so that they become effective

instruments for providing support services to the VSI Sector. (5.48)

2.46 The Committee recommends that the benefit of the concessional rate of interest as applicable to village and cottage industries should be extended to the aforesaid organisations in respect of their support services to tiny sector units also. (5.49)

2.47 The Committee is of the view that State Level Inter-Institutional Committees (SLIICs) constituted under the convenorship of the RBI need to be made more effective so that these fora may consider sickness in the SSI Sector on a consortium basis and initiate rehabilitation programmes in a time-bound manner. Moreover, participation at such meetings should be of a sufficient senior level to commit the organisation for speedy rehabilitation of the sick units. Credit delay may prove suicidal for such units. The Committee also recommends that the magnitude of sickness in the KVI sector needs to be studied for taking remedial measures. The Committee has noted the initiative taken by the IDBI to formulate special schemes for the rehabilitation of sick SSI units and a scheme for modernisation of small scale industrial units. (5.50)

2.48 The percentage of outstanding credit to the value of production in small scale industries increased from 11.0% as at the end of December, 1974 to only 12.7% as at the end of December 1982, while production at current prices in the small scale sector increased by about 280 per cent during the same period. Further, as a percentage of the total priority sector advances, the share of the small scale sector declined from 48% in December 1974 to 40% by December 1978. Thereafter it witnessed a continuous decline and stood at 36% in December, 1982. (6.3)

2.49 Although the percentage share of artisans, village and cottage industries in total loans and advances to SSI units increased from 1.95% in 1979 to 2.50% in 1982, the share continues to be inadequate if account is taken of the credit needs of the sector and the contribution of the sector to the total industrial production and employment in the country. (6.4)

2.50 The declining share of the VSI sector in total priority sector suggests that suitable measures may be evolved to ensure adequate flow of credit to artisans, village and cottage, tiny and small scale sector units in relation to their requirements. (6.6)

2.51 The Committee is of the view that co-operative banks have not made much headway in providing finance to village and cottage industries, excepting to handloom sector, owing to various reasons such as reluctance on the part of co-operative banks to provide assistance to this sub-sector, their small equity base, lack of managerial support etc. and the general lack of development of industrial co-operatives. (6.10)

2.52 The Committee recommends that this scheme should be suitably extended to promote the flow of credit to artisans. (6.11)

2.53 With a view to increasing the credit flow to the village and small and other sectors falling under the definition of small scale industrial sector, the Committee considered that the following steps are necessary:—

(a) *Delegation*

Sufficient powers would need to be delegated by the banks and the financial institutions to their Branch Managers (where this has not been done so far) to ensure that requests for credit from such industries are dealt with expeditiously at the local level. The decision taken in 1979 that all banks should delegate to their Branch Managers powers to sanction credit to the extent of Rs. 25,000 to such industries needs to be implemented and further delegation may also become necessary.

(b) *Orientation*

Top priority should be given to training of Branch Managers so as to bring about the necessary transformation in their attitudes and their approach to lending to this sector.

(c) *Co-ordination*

The grass root representatives of banks and financial institutions would also need to work in close association with the DICs and other promotional agencies.

(d) The top management of the banks and the financial institutions should take greater interest in the implementation and monitoring of the Composite Loan Scheme. (6.15)

2.54 The Committee suggests that a significant increase in the flow of institutional credit to the small scale sector, and in particular, to the other industries under small scale would be possible only if immediate action is taken to impart necessary direction and confidence to Branch Managers for strengthening the credit delivery system at the grass root level on the lines suggested above. (6.17)

2.55 Supervision and monitoring of credit to the VSI sector are of paramount importance in view of their weak equity base, limited managerial and technical capabilities, and inadequate marketing arrangements. In view of the above intrinsic weaknesses, they are unable to withstand adverse changes in the environmental conditions. Hence a proper and sympathetic follow up of the end-use of funds and activity level of the unit is a necessity for the successful working of the units. (6.18)

2.56 With a shift in the concept of financing the small scale industries from a mere security-oriented approach to a need-based approach and viability of operations, emphasis in the follow-up of credit has to be shifted from physical verification of inventory to the monitoring of performance of the unit and making suggestions for improving the performance. (6.19)

2.57 With a view to monitoring the performance of the small scale units and ensuring their continuous

profitable working, the books of accounts of the borrowing units are to be periodically checked with emphasis on the following: (a) production level, (b) sales level, (c) profitability, and (d) inventory level. (6.20)

2.58 Besides conducting physical verification of the inventory of the unit, the banks' operating staff should have a personal dialogue with the borrowers during the factory visits concerning various aspects of the functioning of the unit. Such a dialogue would enable the bank and the borrower to know the shortcomings if any, in the functioning of the unit at the right time with a view to taking necessary remedial measures to make the unit healthier before it becomes a defaulter. (6.21)

2.59 By and large, there has been a lack of sustained interest and direction from the top and a lack of awareness about schemes by the operating officers at the grass root levels. There is a serious problem of communication and even commitment to the cause of promotion of small industrial sector. The problem appears to be more of attitudes and coordination rather than of organisation. The Committee again draws attention to the preceding paragraphs for early initiation of action. (6.24)

2.60 Despite substantial increase of institutional credit from about Rs. 250 crores during 1973-74 to about Rs. 600 crores in 1979-80, the share of tiny units and village and cottage industries has remained nominal. (7.1)

2.61 The Committee's suggestion that raw material banks should be entitled to have the benefit of the interest subsidy scheme is worth considering. (7.28)

2.62 An outlay of Rs. 3189.60 crores has been projected for the whole of the Seventh Plan on KVI sector and this includes an outlay of Rs. 1190.08 crores for the interest subsidy scheme, IRD and gobar gas taken together, of which Rs. 906 crores is institutional finance. (7.31)

2.63 The Task Force set up by the NABARD on Handlooms has recommended a new line of credit for modernisation. The requirement of credit for modernisation at the rate of 2/3 of Rs. 5000 i.e. Rs. 3334 per loom for 24000 looms per year, as proposed, works out to be Rs. 8 crores. For the Seventh Plan Period an amount of Rs. 40 crores would be required to modernise 1.20 lakh looms. The Task Force has also recommended refinance facility through banks, to meet the working capital requirement of Apex/Regional Societies and Handloom Development Corporations for establishment/renovation of showrooms for maketing of the products of the member societies for which institutional credit facility does not exist at present. (7.37)

2.64 The Task Force of NABARD on Handlooms has recommended that the State Handloom Development Corporation should be treated on lines similar to Apex Societies with regard to meeting their working capital requirements for production and marketing. (7.38)

2.65 The Task Force has observed that there is a case for providing refinance facility for working capital where at least 75% of output of cooperative spinning Mills is in bank form. The Task Force has recommended, as suggested by the Hate Study Group earlier, that as in the case of cooperative sugar mills, the cooperative spinning mills organised by handloom weavers/handloom weaver societies should get their working capital requirement at 16.5% per annum and that the RBI should accordingly open a line of credit for them. (7.39)

2.66 During the Seventh Plan period, total credit required for sericulture may be placed at Rs. 150 crores. (7.46)

2.67 Overall requirements for the Plan period, 1985-90 work out to about Rs. 308.20 crores. If the term credit need of Rs. 3.45 crores estimated by the Task Force is added to it, the credit requirements of the Coir Industry during the Seventh Plan would be Rs. 311.65 crores. (7.52)

2.68 The Committee estimates that the total credit requirements of SSI Sector during the Seventh Plan period (1985-90) would come to Rs. 14,561 crores. (7.64)

2.69 The Committee recommends that the application forms should be made available in regional languages. Adequate stocks of such forms should be kept at all branches of banks/State Financial Corporations (SFCs)/State Industrial Development Corporations (SIDCs). (8.4)

2.70 To facilitate filling up of these forms by the borrowers, suitable support should be provided by DICs/banks/SFCs/SIDCs. The Committee recommends that the concerned organisations should arrange for provision of such support required by entrepreneurs. (8.5)

2.71 The Committee appreciated the efforts of State Bank of India and desired that other nationalised banks may also follow the same form. (8.6)

2.72 The Committee suggests that IDBI should look into this aspect and suggest simplified forms for adoption of SFCs and SIDCs. (8.7)

2.73. For the sake of uniformity, the Committee suggests that the format suggested by the Puri Committee should be brought into use by Khadi and Village Industries Commission (KVIC), District Industries Centres (DICs), Technical Consultancy Organisations (TCOs) and other promotional agencies. (8.8)

2.74 The Committee is of the view that with standardisation of application forms, uniformity in their implementation, and use of these forms by promotional agencies, the problems of piece-meal queries by banks and to a large extent the ensuing delays

would be reduced. It further suggests that the process of rejection of applications should be suitably monitored for a bank as a whole for appropriate control, review and guidance. (8.9)

2.75 The Committee feels that where the bank managers are better equipped to deal with loan applications, loans should continue to be sanctioned expeditiously and generally earlier than the stipulated period. (8.10)

2.76 To assist in expeditious disposal of applications by banks the Committee is of the view that bunching of applications should be avoided and flow of applications should be evenly spread throughout the year rather than concentrate in the month of March when applications in bulk are sponsored by the promotional agencies. (8.11)

2.77 The Committee recommends that suitable Cells should be set up by banks to deal with lending to artisans, village, tiny and small scale industries. Where necessary, suitable staff/technical support should also be provided to cope with the increasing work load connected with flow of credit to the VSI sector. (8.12)

2.78 The Committee noted that despite issue of specific guidelines to the banks by the Reserve Bank of India, there is an urgent need to create awareness both among bank staff and borrowers, including prospective borrowers, for delinking the proposal from the collateral/third party guarantee and sanction loans only on the basis of viability of the project. Only the assets created out of the bank loans should constitute the security for advances. The RBI should also monitor that their guidelines/directives are in fact followed by the banks/other agencies. (8.13)

2.79 Regarding margins for working capital, the Committee's suggestions are:

(a) the prescribed margins should be printed on the reverse of the application forms;

(b) for credit limits upto Rs. 25,000, no margin need be prescribed;

(c) for credit limits over Rs. 25,000 margin should not normally exceed 20%;

(d) where margin money/assistance/subsidy is available from the Government or any other financial/promotional agency and is not less than 20% of the loan amount, it should serve as a margin and no further margin money should be asked for;

(e) there should be no insistence on full margin to be brought in at the beginning of the loan operation. Permission should be accorded to bring margin in stages; and

(f) where, under the existing special schemes like that of entrepreneurs. low/no margins are charged, the benefit should be allowed to continue. (8.14)

2.80 Regarding term loans, the promoters' contribution/margin has been prescribed keeping in view the location, type of entrepreneur, etc. The Committee suggests that the norms prescribed by IDBI for term loan should also be followed by banks. (8.15)

2.81 The Committee is of the view that since complaints are received from users, there should be a machinery at regional/zonal/central offices of all banks to entertain complaints from borrowers in the matter of guidelines/instructions/norms not being followed. Further, there should be a machinery to verify that guidelines/instructions/norms are implemented by branches in actual practice. (8.16)

2.82 The Committee recommends that the practice of charging penal rate of interest for small industries may be dispensed with particularly for the smaller among the small units. (8.17)

2.83 The Committee is of the view that the RBI should take steps to have the guidelines monitored and implemented by the banks. (8.18)

2.84 The Reserve Bank of India should re-examine the need for 'discount houses' and 'factoring' to take care of the problem of delayed payment by larger units to small scale/ancillary units. Further, the IDBI should also examine the feasibility of devising a suitable 'Discounting Scheme' for such bills whose payment is delayed by larger units. (8.19)

2.85 The small scale entrepreneurs have to face problems on this score which adversely affect the fortunes of SSI units. Their submission is that the entire SSI sector may be exempted from these schemes. The Committee is of the view that the RBI may re-examine this issue in detail. (8.20)

2.86 As regards other loans, particularly those relating to the VSI sector, the need for uniform practice and standard documentation procedure is stressed. In this context, it may be mentioned that the documentation procedure adopted by SBI has been found to be effective and that the RBI should examine the feasibility of advising other banks to follow the documentation procedure of SBI to ensure uniformity for the VSI sector. (8.21)

2.87 IDBI has recently formulated a scheme of refinance assistance against bridging loans sanctioned by SFCs. The Committee suggests that this facility should be popularised and full benefits taken thereunder by the SFCs. (8.22)

2.88 The Committee is of the view that there is an urgent need for evolving a mechanism for the sharing of guarantee fees between the institutions so that no small borrower, even if the borrowing is done through cover/support organisation, is charged a higher rate of interest than he would have paid if he had borrowed directly in an individual capacity. The Committee suggests that existing guidelines should be suitably reviewed by the RBI and fresh guidelines may be issued to the institutions expeditiously. (8.23)

2.89 The Committee suggests that in view of the large backlog of claims, Government of India and Deposit Insurance and Credit Guarantee Corporation (DICGC) should take expeditious steps to settle them and also to ensure that fresh claims especially of relatively small amounts are settled within a reasonable period of, say 2 to 3 months, after lodgement by credit institutions, subject to normal safeguards. The DICGC may also improve their monitoring mechanism so that credit institutions submit periodical reports regarding recovery of dues from those account for which claims have already been settled to enable the Corporation to receive its due share under its subjugation rights. (8.24).

2.90 The Committee suggests that a high level expert group of the concerned institutions & organisations, including representatives from the Central Government and State Cooperative Departments be constituted to go into the problems of these cooperatives and suggest measures for activising them and for promoting their healthy growth. (9.5).

2.91 Realising this basic lacuna, the Committee endorses the suggestion of the National Committee on the Development of Backward Areas (NCDBA) in its Report on Village & Cottage Industries, in March 1981, that the Ministry of Industry evolve a comprehensive definition of village industries and if necessary enlarge the scope also. The Committee further feels that as definite criteria would be very advantageous, the Ministry of Industry may address itself to this task without further delay. (9.6)

2.92 In the above context the Committee feels that besides finance, village industries require broad support in terms of:

(a) enlargement and reservation of specified items for production in the village industries sector;

(b) continuous updating and dissemination of technology to the field;

(c) provision of training, design and market intelligence to entrepreneurs to enable change in production lines and thereby capture a larger market:

(d) supply of raw materials particularly those not locally available at reasonable rates;

(e) improvement in tools and techniques;

(f) developing the necessary marketing framework to cater to local and outside markets;

(g) standardisation of products and ensure its availability though normal distribution channels;

(h) ensuring the availability of credit locally; and

(i) general extension support and counselling. (9.9)

2.93 Keeping the above in view, the Committee considers the following to be of crucial importance:

(i) There should be a rationalisation of the whole system of support and credit facilities.

(ii) All village/cottage industrial units/artisans which/who are situated in towns and utilise locally available men and raw-materials, should be expeditiously included in the Schedule to the KVI Act except handlooms, handicrafts, sericulture and coir for which separate national boards/agencies exist.

(iii) The feasibility of reservation of items for exclusive manufacture in the village and cottage industries, handicrafts, handlooms etc. may be examined and suitable criteria may be evolved for this purpose.

(iv) There should be a strengthening of the organisational set-up of the KVIC at the apex level and of the KVIBs at the State level, upto the field level, in respect of the Khadi and Village Industries, particularly in terms of identification of projects/schemes, updating of technology and adoption of improved techniques, supply of raw-materials, extension of credit and marketing support, standardisation of KVI products, provision of need-based training/servicing centres and extension services and support. Responsibility for developing coordination with credit agencies has to be vested with the promotional bodies and matching contribution of budgeted outlay by State Government has to be provided in relation to the existing provision made to State KVIBs by the KVIC.

(v) Experience has shown that village industry programmes have been by and large successful in areas where voluntary agencies are active. But as the number and delivery mechanisms of voluntary organisations are not uniform in the country, there is need for KVIC and other promotional agencies to develop their own hierarchy and extend their administrative machinery to the unit/project level. (9.10)

2.94 The Committee after examining the model suggested by the National Committee on Development of Backward Areas, and after considering the various alternatives, has come to the conclusion that the Ministry of Industry may constitute a group of the concerned Central and State level promotional organisations to evolve a suitable model to reach the village level in order to promote village industries and to ensure adequate and timely credit for them. (9.11)

2.95 The Committee suggests that the ideal situation would be to limit the role of KVIC to policy formulation at the national level and to international and interstate coordination, overall planning, budget allocation, monitoring and coordinating of research work. KVIB's role at the state level should be that

of the principal implementation agency with its organisational set-up extended upto the grass root level. (9.12)

2.96 The Committee while recognising the need for extending the implementation machinery upto the field level is of the view that the creation of new agencies would only mean proliferation and would give rise to further problems of coordination and implementation. It would, on the other hand, be more cost-effective to extend the field machinery of KVIC to the district level. Further in-road into rural areas may be desirable but this may have to be weighed in terms of financial implications and practical limitations. In essence KVIC may remain a foot loose organisation limiting its reach to the district headquarters. (9.13)

2.97 On the other hand, voluntary agencies should be encouraged at block/taluka levels to assist artisans with essential inputs and back-up services and also maintain a liaison with the commercial banking system. (9.14)

2.98 So far as technology is concerned, the Committee is in agreement with the suggestion for the setting-up of a National Board of Research and Technology for the small scale sector. (9.15)

2.99 For increasing the credit availability to the KVI Sector, it is necessary to involve various types of institutional financing agencies such as commercial banks, cooperative banks, regional rural banks and State Financial Corporations. The refinancing facility for advances to the KVI Sector should be made available both from NABARD and IDBI. The credit need of the KVI Sector should be progressively met from the institutional financing agencies. Till such time as this begins to take roots, budgetary resources may continue to play their role to supplement the resources raised from the institutional financing agencies. (9.16)

2.100 It is recommended that NABARD should (i) extend refinance facility to the institutions registered under the Societies Registration Act 1860 or similar type of cover organisations and (ii) utilise the channels of commercial banks or State Financial Corporations for assisting cottage and village industries (including Khadi). Similarly, IDBI too should (i) extend the benefit of refinance for working capital advances required by the cottage and village industries (including Khadi) sector either to individual artisans or to cooperative societies or to institutions registered under the Societies Registration Act, 1860 or any other similar type of cover organisations and (ii) extend the advantage of lower rate of interest under the scheme of composite finance upto Rs. 25,000 to cover organisations as listed above, engaged in implementation of cottage and village industries (including Khadi). The restriction regarding places below a population of 10,000 in the case of NABARD and below 50,000 in the case of IDBI for the benefit of refinance facility for cottage and village industries (including Khadi) should be removed and the artisan and the cover organisations, as indicated above, should be entitled for the benefit of lower rate of interest under the scheme of composite finance or similar other schemes irrespective of location. (9.17)

2.101 It was agreed that, by and large, the assessment made by the KVIC/KVIB for the purpose of issuing interest eligibility certificates should be acceptable to the banks but that the banks have a right to exercise their own judgement in the matter. The Committee endorses this view and recommends: (i) that credit agencies should give due weightage to the recommendations made in the interest subsidy eligibility certificates issued by KVIC/KVIB and (ii) that credit agencies should not summarily reject applications from eligible borrowers, if recommended by KVIC/KVIB. In the event of any disagreement about assessment, the credit agencies should communicate to the KVIC/KVIB the reasons for not accepting the assessment made by the KVIC/KVIB. (9.18)

2.102 The Committee recommends that the KVIC should place adequate imprest with the concerned banks to enable them to draw the interest subsidy portion and claim from the KVIC from time to time by way of recoupment. The modus operandi for this may be worked out by the KVIC in consultation with the banks. (9.19)

2.103 The system of blanket insurance coverage for the assets of the cottage and village industries sector (for individual artisan as well as for organisations), with a lower rate of premium may be devised in consultation with General Insurance Corporation of India. (9.20)

2.104 There is need to bring some parity in the interest rates charged by the commercial banks and the co-operative banks for priority sector advances. (9.21)

2.105 To increase the availability of working capital the banks may be re-oriented to provide investment credit for pre-loom facilities like the setting up of dye houses, bleaching units, acquisition of new looms, modernisation of old looms and for post-loom activities like processing of grey cloth, printing etc. The commercial banks and regional rural banks may continue to supply credit to the handloom weavers at concessional rates of interest and the entire refinancing be left to the NABARD. (9.24)

2.106 In order to give the necessary push to handloom development programmes, measures need to be evolved through the establishment of special cells at least in the banks located in areas where there is a concentration of handlooms beyond a particular limit. The working of the weavers cooperative societies however has not been uniformly effective in all the States. The NABARD already engaged in this field, could give serious thought to this area and evolve suitable schemes and operational monitoring mechanisms to adequately regulate the flow of credit. Further, wherever the functioning of the Weavers Cooperative Societies is satisfactory but adequate flow of credit is not forthcoming from the Central Cooperative Banks, the possibility of financing weaver societies directly by the State Cooperative Banks or Regional Rural Banks

may be explored. To ensure timely sanction of credit limits to Central Cooperative Banks for financing weavers societies the Regional Offices of NABARD may be delegated powers to sanction adequate limits. To prevent blocking of funds a Rebate Adjustment Fund may also be created with the Apex Society and a portion of the budgeted outlay may be deposited by the State Government towards rebate in this fund. (9.25)

2.107 To facilitate better coordination between the Handloom Development Corporations and the banks, the clearance of applications may be carried out at joint meetings. NABARD could function as the sole refinancing agency for the Handloom Development Corporations as well as the Weavers Cooperative Societies. In addition, the block capital obtained from developmental agencies/ Government may be used as margin money so that adequate institutional finance could be mobilised. The banks might also consider financing of showrooms, emporia, etc. which may be refinanced by NABARD. The latter may also take up funding of Research and Development (R&D) activities aimed primarily at improving productivity and quality and dissemination of such improvements to handloom weavers. The States on their part could emulate the "cluster approach" adopted by the Andhra Pradesh State Government whereby package assistance covering infrastructure and other facilities is provided. (9.26)

2.108 It is suggested that for bank assistance to handicraft artisans under the composite loan and IRDP schemes, NABARD should be the sole refinancing agency. For cooperatives, a pattern similar to handloom cooperatives may be followed, i.e. a subsidy of 3 per cent be made available by State Governments. In addition, the quantum of working capital finance may be enhanced to 50 per cent as against the existing 40 per cent being given to handloom cooperatives. The Handicrafts Development Corporations should be extended concessional credit by commercial banks on the same lines as are available to handicraft artisans. The overall promotional, infrastructural and marketing responsibility should be vested with the Handicrafts Corporations and bank advances to these Corporations should be eligible for refinance from NABARD. (9.28)

2.109 NABARD should consider providing refinance facilities on liberal terms and should interact with the National Cooperative Development Corporation to formulate special schemes for financing of the coir sector. The State and District Central Cooperative Banks should be geared up by State Governments/NABARD to take an active interest in obtaining credit limit applications from the societies in time, scrutinise these applications expeditiously and forward these to the NABARD through proper channels within the stipulated time. (9.31)

2.110 As the turnover of coir products takes place once in 6 months, there appears to be need for raising the refinance facility for working capital requirements from 40 per cent to 60 per cent of the anticipated value of sales. Cooperativisation on a large scale should be encouraged, particularly in areas where a cluster of coir workers operate. The new coir cooperatives may be provided with long-term financial assistance by the NCDC upto 50 per cent of the total cost treating coir cooperatives as processing societies. (9.31)

2.111 Assistance may also be extended by the Coir Board to the apex marketing societies for developing the market for coir and coir products. This may take the form of grant for face-lifting of showrooms and financial assistance extended by NCDC for transporting fibre and finished goods between the societies and the market. The State Cooperatives Coir Marketing Federations may be established in States where marketing federations do not exist. (9.31)

2.112 The NABARD may consider streamlining of procedure (discussed in Chapter VIII) and render necessary training to officers in the cooperative banks incharge of sanctioning credit limits. The regional offices of NABARD may be authorised to sanction credit limits as against the present practice of referring them to the Head Office. (9.32)

2.113 The entire refinancing of sericulture activity may be done by NABARD which should refinance processing activities also like semi-mechanised reeling, twisting, dyeing, finishing, etc. and plan suitable schemes financing non-mulberry silk. (9.36)

2.114 One major problem often faced in financing sericulture activities is the ineligibility of sericulturists to avail fresh credit on account of past defaults. Some distinction needs to be made between wilful and non-wilful defaulters and the latter category should be considered for the sanction of fresh loans for minor irrigation, new planting, rearing equipment, rearing houses, etc. Wherever crop failures or other calamities occur on a larger scale, the State Government should examine the position in consultation with NABARD and recommend rescheduling of loans. (9.36)

2.115 A scheme of insurance like the credit Guarantee Scheme being operated in the small sector may be evolved to insure against crop losses. This might, to some extent, alleviate the financial problems of sericulturists. (9.36)

2.116 Activities relating to raising of plants in the case of non-mulberry silk have to be brought within the ambit of institutional credit. To ensure better efficacy in planning and execution of programmes, greater coordination between the Central Silk Board (CSB), State Governments and NABARD deserves special attention. (9.36)

2.117 The Committee is of the view that the investment limit on plant and machinery is only for identification of this sector and does not preclude including the other cost factors for the purpose of larger credit flow to this sector. It was also pointed out that prices of land and building vary from place to place and from situation to situation even in the same State, hence these cannot provide a stable base

for definition. The Committee therefore, suggests that the ceiling of investment on plant and machinery should continue to be the basis for definition of the tiny sector and the small scale industries. (9.40)

2.118. The DICs should be strengthened in such a manner that they can plan their growth and draw up District Development Plans which could form an input for the District Credit Plans. An all India cadre of Small Industries Promotion Officers can be created for this purpose. This cadre should be provided intensive training in all aspects of "development banking" including entrepreneur identification and motivation, project evaluation, follow up and in-plant counselling. (9.42)

2.119 The Committee feels that there is need for implementation of a "Capital Mobilisation Scheme" whereby in lieu of income tax payment, small scale industries units are allowed to put the amount of tax as a long-term non-refundable deposit in a bank which they may be allowed to draw for expansion, modernisation, diversification and working capital. (9.44)

2.120 To ensure continued availability of credit, it is necessary to make it binding on the State Financial Corporations and State Level Institutions to meet the entire term finance of the small scale unit, once the project is cleared. If necessary, suitable modifications under Section (7) and (26) of the SFC Act, 1951 should be made. The Memorandum and Articles of Association of various State level agencies should also be amended for this purpose and their resource position sufficiently strengthened. The State Government should also allow other State level Corporations to issue such bonds against the guarantee of the State Government so that State level institutions are able to mobilise resources. The foreign currency lines of credit may also continue to be passed on by IDBI to SFCs for on-lending to SSI units. The banks should fully meet the requirements of working capital of SSI units and these limits should be granted in a 'package' so that the units have the flexibility of availing the facilities from bank of varied nature depending on their requirements. In fact the provision of insufficient/inadequate finance could do more damage to the enterprise than no financing at all. (9.47)

2.121 The IDBI could consider exending refinance facilities for smaller industrial estates. The Industrial Finance Corporation of India (IFCI) could take up direct financing of industrial estates especially where they are on a cluster basis. (9.48)

2.122 For small scale industries, until the formation of an Apex Financial Organisation for the VSI Sector, the IDBI should be designated as the sole refinancing agency for regulating the terms and conditions of credit and the interest rate structure. It should also evolve schemes for providing financial assistance for various purposes necessary to promote SSI units. To facilitate better and more meaningful coordination, a forum, both at the State and district levels, may be created. The District Level Committee already in operation should be further strengthened. The need for extending the consortium approach in the financing of small scale sector may also be explored. (9.48)

2.123 Another general suggestion which needs careful thought is the extension to promotional organisations, like State Industrial Development Corporations and Infrastructural Development Corporations, of the same concessional rates of interest as are applicable to artisans and the target-groups at least in respect of those institutions which the RBI directive has not yet covered. (9.49)

2.124 Keeping the difficulties of small scale entrepreneurs in view several committees like the RS Bhat Committee (Committee on Development of Small and Medium Entrepreneurs), James Raj Committee (Committee on the functioning of Public Sector Banks) and Puri Committee (High Powered Committee for Examining Bank Credit Problems of SSI) have recommended the setting-up of a national equity fund. This Committee is also of the opinion that the introduction of such a fund would be a step in the right direction to assist the tiny and small scale sector. (10.9)

2.125 The Government of India proposes to establish a National Equity Fund to be administered by the Industrial Development Bank of India. The Committee lends full support to the proposal and places before the Government for its consideration the following suggestions with regard to the setting up of the National Equity Fund:—

(1) In addition to new entrepreneurs establishing industries in the small scale sector including cottage and village industries, assistance from the fund may be made available to groups of entrepreneurs who may have organised themselves in cooperatives or in any other legal form including institutions registered under the Societies Registration Act.

(2) Eligibility for assistance may be widened to include units going in for rehabilitation and modernisation of their units.

(3) A minimum contribution from the promotor of not less than 5% of the project cost may be fixed so that he has a stake in the project.

(4) The minimum and maximum amounts of assistance to be sanctioned to a single unit may be specified.

(5) Assistance may be non-interest bearing and unsecured with a service charge of 1% per annum which could accrue half-yearly and be made payable after an initial moratorium of three years. The repayment of the loan itself could be spread over a period of five years commencing after the term loan has been paid back.

(6) Banks and financial institutions eligible to draw on the fund may sanction limits on the basis of available funds and after calling for performance budget which may be prepared every year. A mid-term

review may be under-taken every year and limits revised if necessary.

With a view to making available interest free seed capital to the small scale units, the Committee recommends the setting up of the National Equity Fund as early as possible. (10.10 & 10.11)

2.126 The viability and the success of the units in the decentralised sector very much depend upon the vigour with which the promotional and other supporting organisations provide support to these units. The credit institutions today do not get closely involved with the supporting infrastructure as they may not be their direct clients. The Committee is convinced that a new philosophy of decentralised finance, new objectives of this finance and a new will for this purpose is the prime need of this sector. (11.3 & 11.4)

2.127 The Committee is convinced of the need to finance better and much more adequately both the small scale sector and the decentralised sector and it agrees that as of today the financing of these sectors leaves a great deal to be desired. The Committee saw clearly that if a new Apex institution were to be created to support only the decentralised sub-sector, then the very deserving needs of a most resilient sub-sector, viz. the small scale industry (SSI), would remain less attended and the country would lose the advantage of the full development of this sub-sector. On the other hand, if the Apex organisation were to cater to the decentralised as well as the SSI sub-sector, the former has serious apprehensions that all attention would be snatched away by the latter and that the decentralised sector would continue to languish. The Committee, therefore, felt the need for having two separate apex institutions to provide financial, technical and organisational support and refinancing—one for each of the two wings of small industries. These comprehend on the one hand the decentralised sector (which includes activities such as Khadi, handloom, sericulture, coir, handicrafts etc.) and on the other the SSI sector comprising of units having investment in plant and machinery not exceeding Rs. 20 lakhs* and ancillaries not exceeding Rs. 25 lakhs*. The Committee noted that the creation of a full-fledged apex institution which credit delivery system, refinancing ability and technical specialisation is, at best, bound to take time and, at worst, difficult to create, and as the IDBI and the NABARD are quite capable of meeting the needs of the small scale industries and the decentralised industries respectively, the Committee recommends for immediate action, the creation of two separate specialised apex units, one under the umbrella of the IDBI to support the SSI and the other under the wings of NABARD to support the decentralised industry. (11.6 & 11.7)

2.128 The Committee agrees that any business unit in any category of industry must have more than one alternative source of finance and should in no case be constrained to obtain finance from just a single source. Multiple financing possibility is an essential feature of all financial intermediation in developed economies and the Committee accepts this basic proposition. Even when the IDBI has a specialised unit within its fold for the sake of small scale industry, this apex unit should continue to provide financial, technical and other support to the decentralised sector. The same would be true of the specialised unit within NABARD which could finance and support such small scale industries as are located in rural areas. The Committee agrees that eventually with experience and structural changes coming in society and the small scale industry as well as the decentralised industry more fully inbibing the industrial culture, the two apex units mentioned above could eventually merge into an independent apex body. (11.8)

2.129 The Committee has recommended elsewhere the fixing of financial and other targets for the decentralised sector, as there is some evidence that these industries do not get all the finance that they deserve. The Committee also recommends earmarking of certain volumes of funds for the decentralised and the tiny industries. Even as the farming community has obtained considerable benefit from the scheme of lower interest rates, the question of providing loans at lower interest rates to the decentralised and the tiny sectors should be considered favourably. Some of the disabilities of the decentralised sector, it is felt, could be removed if the representatives of the decentralised sector could be involved in the decision-making bodies. (11.9)

*After the Central Budget of 1985-86 these will be Rs. 35 lakhs and Rs. 45 lakhs respectively.

CHAPTER III

VILLAGE AND SMALL INDUSTRIES SECTOR AN OVERVIEW

Importance of Village and Small Industries Sector in the National Economy.

3.1 Village and small industries are labour-intensive and capital-saving in nature. Their role has, therefore, been rightly emphasised in the Indian economy where there is a large-scale unemployment and under-employment. Other factors which weigh in favour of this sector are its capacity to attract small savings to productive channels, short gestation period and its adaptibility to rural and semi-urban environments where infrastructure may not be fully developed. The village and small industries sector has been recognised as an effective tool for providing gainful self-employment opportunities. These industries are also considered an important instrument for promoting rapid industrial growth by providing greater employment opportunities in particular to women and weaker sections of society and for bringing about a reduction in regional disparities and removal of economic backwardness of the rural and undeveloped areas of the country.

3.2 The importance of village and small industries sector in the Indian economy is evident from the fact that in 1979-80 the share of this sector in the contribution made by manufacturing sector was around 49 per cent in terms of gross value of output and 51 per cent in terms of value added. This sector offered employment opportunities to about 23.6 million persons (both part time and full time) as against 4.5 million persons in the large and medium sector. In the sphere of exports, this sector accounted for about 45 per cent of the total exports of manufactured goods from the country.

3.3 The promotion of village and small industries continues to be an important element in the national development strategy, particularly due to its lower capital-output ratio and higher employment intensity. In 1979-80 the net value added per unit of investment in respect of organised small scale sector was 1.21 as against 0.36 in the large scale sector. Production per unit of investment in the small scale sector was 8.10 as against 1.60 in the large scale sector. On an average an investment of Rs. 1 lakh in the small scale sector resulted in creating employment opportunities for 19 persons while for providing employment to the same number of persons in the large scale sector an investment of Rs. 9.5 lakhs was required.

3.4 The important objectives set for the village and small industries sector, like the dispersal of industries, higher capacity utilisation etc. could be better achieved through increased access to credit from institutional financing agencies. Though the dispersal of the small scale units away from the metropolitan areas and large cities has started recently, the trend is quite encouraging. A review of SSI units which were registered and had gone into production in 1981 shows that out of a total of 68,000 units, more than 32,500 (47%) were set up in the centrally identified backward districts and another 7,000 (10%) in the zero-industry districts. Only 5% of them were set up in city areas. If artisan units are also added, the percentage of SSI units set up in the centrally identified backward districts and zero-industry districts goes upto 53% and 12% respectively. The capacity utilisation in the VSI sector has been estimated to be ranging between 45% and 60%. There has been a substantial increase of institutional credit from about Rs. 250 crores in 1973-74 to about Rs. 600 crores in 1979-80, but the share going to tiny units and village and cottage industries has been small by far. According to a survey conducted by the Reserve Bank of India of all the units assisted by commercial banks upto June, 1976, about 69% of the total credit flow was availed of by 11% of the units in the small scale sector which accounted for about 56% of production. Taking into account units which do not have access to institutional finance the disproportionate supply of credit becomes very pronounced.

3.5 The VSI sector suffers from a low level of technology and there is considerable scope for upgradation of technology without destroying the labour intensive nature of this sector. The problems of technological upgradation, non-availability of raw materials of desirable quality at reasonable prices and lack of marketing arrangements for selling the products at remunerative prices, deprive the artisans of a good part of earnings which should accure to them. The increased flow of institutional finance in the VSI sector has not sufficiently covered the artisans sector which continues to depend for a major part of its capital requirements on non-institutional sources from which the credit is available only at exhorbitant rates of interest.

3.6 The Committee is, therefore, of the view that a distinctly sharp focus needs to be given to tiny cottage and village units as compared to other SSI units. In order to facilitate the disposal of small scale units away from the metropolitan areas and to make available adequate concessions and facilities to the decentralised sector the Committee feels that the concessions and facilities now admissible to Small Scale Industry (SSI) units, with the exception of tiny units, should not be extended to new units to be set up in the metropolitan areas. In the case of other SSI units the existing concessions should be graded slab-wise.

3.7 The importance of this sector has been emphasized by its recognition in the New 20-Point Programme which lays emphasis on giving handicrafts, handlooms, small and village industries all facilities to grow and update their technology. The approach to the 7th Plan also gives highest priority to the generation of employment opportunities and the role which village and small industries sector would have to play in the fulfilment of this objective. A new thrust and directive has accordingly been given to the development of these industries by providing a suitable policy frame supported by institutional arrangements and extension services throughout the country.

3.8 The Industrial Policy Resolution and Statements made by the Government of India from time to time have laid great emphasis on the role of village and small industries. The objectives of these Resolution/statements have been to promote village and small industries so as to generate large scale employment opportunities on a de-centralised and dispersed basis, to up-grade the existing skills of the artisans as well as the quality of the product and to step up production of mass consumption items. The salient features of the various Industrial Policy Resolution/Statements, as far as village and small industries sector is concerned, are given below:

Industrial Policy Resolution, 1956

3.9 The Industrial Policy Resolution of 1956, which is the basic document laying down the directive principles of State Policy regarding development of industries—large, medium and small—recognised the important role of small scale industries in the development of the national economy. In relations to some of the urgent problems that needed immediate attention, the small scale industries were recognised as offering some distinct advantages such as immediate prospect of large scale employment, mobilisation of local resources of capital and skills, more equitable distribution of the national income, etc. In view of these special features, the declared aim of State Policy, as enunciated in the Industrial Policy Resolution of 1956, was to ensure that the small industries sector would acquire sufficient vitality to be self-supporting and that its development would be integrated with the large scale industries. It was, therefore, suggested that the Government should concentrate on measures designed to remove the basic handicaps of small scale industries such as the lack of technical and financial assistance, shortage of suitable working accommodation and the inadequacy of tooling, repairs and maintenance facilities, etc. It was also laid down that the technique of production of village and small scale industries should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment.

Industrial Policy Statement, 1977

3.10 The main thrust of the Industrial Policy Statement, 1977 was on effective promotion of cottage and small industries widely dispersed in rural areas and small towns. It was stated that whatever can be produced by small and cottage industries must only be so produced. Reservation of spheres of production for the small scale sector, identification of tiny sector, launching of District Industries Centres programme for providing all support to small units at one place, close coordination between development of large, medium and small sectors were the salient features of the Statement.

Industrial Policy Statement July, 1980.

3.11 The main objectives of this Industrial Policy Statement are optimum utilisation of the installed capacity: maximising production and achieving higher productivity: higher employment generation; correction of regional imbalances through a preferential development of industrially backward areas: strengthening of the agricultural base by according a preferential treatment to agro-based industries and promoting optimum inter-sectoral relationship: faster promotion of export-oriented and import substitution industries: promoting economic federalism with an equitable spread of investment and the dispersal of returns amongst widely spread over small but growing units in rural as well as urban areas; and, consumer protection against high prices and bad quality.

Sub-sectors covered under the village and small industries

3.12 The village and small industries sector comprises a wide spectrum of industries covering activities like handlooms, handicrafts, khadi, village and cottage industries, sericulture and coir on the one hand and modern small scale industries on the other. Modern small scale industries have been defined with reference to investment in plant and machinery. According to the present definition all those units whose investment in plant and machinery does not exceed Rs. 20 lakhs (Rs. 25 lakhs in the case of ancillary industries) fall in the category of small scale industries. Since the definition of small scale industries does not prescribe any lower investment limit, even activities such as handlooms, handicrafts, sericulture, coir, powerlooms, khadi, village and cottage industries where the investment in fixed assets may be a few thousand rupees only, are covered by this definition. Definitions of small scale industries. ancillary industries and tiny units as given below have been adopted by the Government of India.

Small Scale Industries

Undertakings having investment in plant and machinery whether held on ownership terms or by lease or by hire purchase not exceeding Rs. 20 lakhs.

Ancillary industries

Undertakings having investment in plant and machinery whether held on ownership terms or by lease or by hire purchase not exceeding Rs. 25 lakhs and engaged in:—

(a) the manufacture of parts, components, sub-assemblies, toolings or intermediates, or

(b) the rendering of services and supplying or proposing to supply or render 50% of their production or the total services, as the case may be, to other units for production of other articles:

Provided that no such undertakings (i.e. small scale industry or ancillary industry) shall be a subsidiary of or owned or controlled by any other undertaking.

Tiny Units

Undertakings having investment in plant and machinery not exceeding Rs. 2 lakhs.

3.13 There is need to focus special attention on the development of small service establishments, khadi and village industries, handicrafts and handlooms. The definitions of these activities as in vogue are given below:—

Small Service Establishments

Establishments/Enterprises engaged in personal or household services in rural areas and towns with a population of 5 lakhs or less and having investment in plant and machinery not exceeding Rs. 2 lakhs.

Khadi and Village Industries

'Khadi'—Any cloth woven on handlooms in India from cotton, silk or woollen yarn handspun in India or from a mixture of any two or all of such yarns.

'Village Industries'—All those industries which have been included in the Schedule to the KVI Act are known as village industries.

Handicrafts

All articles which are made by hand or with the aid of small mechanical devices and are artistic in nature either by way of art-work or form, shape or design are taken as handicrafts.

Handlooms

Handloom is a loom for weaving of cloth by using yarn made of any fibre singly or in blends and used manually without the aid of power.

3.14 In order to link the investment criteria with the definition of village and cottage industries, it is recommended that for purposes of concessional finance, criteria based on investment per artisan should be adopted for village and cottage industries.

3.15 The village and cottage industries are generally artisan based, located mostly in rural and semi-urban areas, involving lower levels of investment in machinery and equipment and provide both full and part time employment. The modern small scale industries on the other hand use largely power-operated machinery and equipment with sophisticated technology. In recent times, more and more modern small units are getting registered in backward areas as may be seen from the data given below:

Statement showing new Small Scale Units registered during 1979, 1980, 1981 and 1982 in backward districts, in and around metropolitan cities and towns having population more than 10 lakhs.

Sl. No.	Description	1979	1980	1981	1982
1.	Units registered in Centrally backward districts	22341 (43·6)	26953 (43·5)	32573 (47·3)	33970 (47·6)
2.	Units registered in and around metropolitan cities and towns having population more than 10 lakhs according to 1981 Census	6545 (12·8)	7187 (11·6)	7223 (10·5)	6527 (9·2)
3.	Units registered in other districts	22396 (43·6)	27862 (44·9)	29010 (42·2)	30868 (43·2)
	Total	51282 (100)	62002 (100)	68806 (100)	71365 (100)

3.16 For convenience of analysis and understanding, in this Report the Committee deals generally with the village and small industry (VSI) sector as a whole, or with the following two sub-sectors or components of VSI:

(a) Small Scale Industry Sector (with plant and machinery upto Rs. 20 lakhs, or in the case of ancillaries upto Rs. 25 lakhs).

(Within the small scale industry sector, units with less than Rs. 2 lakhs value of plant and machinery are sub-classified as the tiny sector).

(b) Decentralised Sector:

(i) Khadi and Village Industries (including handlooms, handicrafts, coir, sericulture etc.)

(ii) Village artisans.

CHAPTER IV

INSTITUTIONAL STRUCTURE FOR FINANCING OF VSI SECTOR

Apex Level Institutions

4.1 The institutional structure for the flow of credit to Village and Small Industry (VSI) sector comprises two institutions at the apex level viz. Industrial Development Bank of India (IDBI) and National Bank for Agriculture and Rural Development (NABARD). The primary credit institutions are commercial banks, regional rural banks, cooperative banks and State Financial Corporations. They all work under the overall guidance of the Reserve Bank of India. An organisational chart of the institutions providing finance to VSI sector is given at Annexure-II A.

Broad Objectives

4.2 The policy thrust of the apex financial institutions has been to evolve suitable programmes/schemes as well as to increase the net-work of primary credit institutions that artisans, village and cottage industries, tiny units and other small-scale units have access to institutional finance.

Reserve Bank of India

4.3 The Reserve Bank of India controls and regulates the activities of the banking system, frames and regulates credit policies to ensure adequate flow of institutional assistance to various sectors consistent with the socio-economic objective of the Government. RBI also provides resource support to IDBI and NABARD.

Industrial Development Bank of India

4.4 IDBI's assistance to VSI sector is channelised through the net-work of primary lending institutions under its Refinance Scheme, Bills Rediscounting Scheme and Seed Capital Scheme. It also provides resource support to National Small Industries Corporation for its lending to small scale sector. IDBI operates schemes which extend financial assistance at concessional rate of interest to the units in the VSI sector covered under Credit Guarantee Scheme.

4.5 Assistance disbursed by IDBI to primary credit institutions under its scheme of Refinance to SSI units recorded a significant increase from Rs. 101 crores in 1978-79 to Rs. 338 crores in 1983-84 registering a more than three-fold increase. The share of SSI units in total disbursements of IDBI increased from 15.3% in 1978-79 to 17.4% in 1983-84. The network of eligible primary lending institutions has been raised to 826 which includes State Financial Corporations (SFCs)/State Industrial Development Corporations (SIDCs), commercial banks, Regional Rural Banks (RRBs), State Co-operative Banks, Central Co-operative Banks and Urban Co-operative Banks. IDBI extended in December 1983 its refinance facility to cover bridge loans granted by SFCs/SIDCs pending finalisation of loan documentation. The assistance availed by the small scale sector under the Bills Rediscounting Scheme was negligible prior to 1977-78. However, with positive efforts on the part of IDBI mainly through favourable rediscount rates offered for units in this sector and allocation of special limits by IDBI to commercial banks for exclusive use by small-scale sector, there has been considerable increase in the flow of assistance over the last five years. Assistance under the Bills Rediscounting Scheme increased from Rs. 4 crores in 1977-78 to Rs. 118 crores in 1983-84 revealing greater use of these schemes by small enterprises. The Seed Capital Scheme was introduced in 1976 with the prime objective of providing assistance on liberal terms mainly to first generation entrepreneurs with requisite traits and skills but without adequate resources of their own for setting up industrial projects. Assistance under the scheme has been rising rapidly in recent years, particularly after certain liberalisations were effected in 1981. During 1983-84, sanctions and disbursements under the scheme aggregated Rs. 12 crores and Rs. 8 crores respectively. Cumulative sanctions and disbursements under the scheme upto the end of June 1984 stood at Rs. 30 crores (464 projects) and Rs. 16 crores respectively.

4.6 Besides financial assistance, IDBI has evolved different promotional schemes for the development of VSI sector. In conformity with the industrial policy and in order to augment flow of credit to VSI sector, particularly to decentralised sector, IDBI formulated in February 1979, the Composite Loan Scheme. During the year 1983-84, an assistance of Rs. 7 crores under the Composite Loan Scheme was sanctioned to 8,464 village and cottage units towards their fixed and working capital requirements. Since introduction of the scheme in February 1979, total assistance sanctioned upto the end of June 1984 amounted to Rs. 40 crores covering 52,973 units. IDBI also simplified its procedure for sanctioning/disbursement of assistance to primary credit institutions. For example, assistance upto Rs. 5 lakhs per proposal under Refinance Scheme has been covered under the Automatic Refinance Scheme. The scheme has been streamlined further recently to make it more effective. Other loan proposals are being accorded expeditious sanctions under suitable delegated authority and only larger loan proposals are cleared by Regional Committees constituted for this purpose. IDBI has evolved a scheme for extending refinance assistance on concessional rates under its Relief Refinance Facility to units affected by natural calamity. IDBI has

also evolved a special scheme for assistance to industrial estates. During 1983-84, IDBI sanctioned refinance assistance of Rs. 25 crores in respect of 83 industrial estates. Since 1973-74, when IDBI started financing industrial estates upto the end of June 1984 the total refinance assistance sanctioned to industrial estates aggregated Rs. 98 crores in respect of 504 industrial estates.

4.7 The Committee observed that IDBI has evolved special schemes for financing smaller/rural industrial estates on concessional terms, to enable the village and cottage industries sector to set up small units. However, the response to such schemes has not been satisfactory. The IDBI may examine the causes of poor response and take remedial measures.

4.8 In January 1984, IDBI has formulated two special schemes for assisting modernisation requirements of VSI units and rehabilitation of sick VSI units.

4.9 Apart from various forms of financial assistance, IDBI has also evolved a variety of promotional schemes to assist small-scale entrepreneurs. It plays an important role in making available non-financial inputs for promotion, planning and executions of projects as also improving the management of industrial enterprises and institutions engaged in this field. Its promotional activities aim at upgradation of institutions, identification and development of entrepreneurs, balanced regional development, upgradation of technology, promotion of rural industries and creation of self employment opportunities for the weaker sections. These activities are supported mainly by the Technical Assistance Fund (TAF) instituted in 1977. IDBI has further enlarged the scope of the promotional activity to cover such new areas as adoption of development blocks for integrated rural development, application of improved indigenous technology, and the setting up of science and technology parks.

4.10 IDBI alongwith other all-India financial institutions have so far sponsored 15 Technical Consultancy Organisations (TCOs). The TCOs provide wide spectrum of consultancy services at moderate charges to small and medium entrepreneurs, especially the new ones, govt. departments, commercial banks and State level financial institutions and also other agencies engaged in industrial promotion and development.

4.11 For encouraging growth of new entrepreneurs, IDBI provides its active support to Entrepreneurship Development Programmes (EDPs) through TCOs, banks and other agencies. Cumulatively upto the end of June 1984, IDBI provided assistance of Rs. 50 lakhs to 272 EDPs benefiting over 6,000 entrepreneurs. A notable feature of entrepreneurial development activity during 1983-84 was the importance attached to EDPs for specific target groups like women entrepreneurs with background in science & Technology, entrepreneurs from tribal communities and other disadvantaged groups. IDBI alongwith other all-India financial institutions and SBI have set up Entrepreneurship Development Institute of India (EDII) as the principal agency for entrepreneurship development, training of trainers/motivators running model training programmes and undertaking research in this field. During 1983-84, IDBI constituted an Advisory Group to suggest steps required for development of informal sector as part of Bank's contribution towards the Integrated Rural Development Programme. Based on the suggestions of the Group, IDBI requested TCOs to adopt at least one block within their jurisdiction for innovative identification of rural industrial projects, and also suggest improvement in the functioning of existing industrial units by infusing improved technology, design and process. Efforts are being made by IDBI to identify voluntary organisations and other agencies for undertaking rural development programmes. Recognising the need for creation of self-employment opportunities for the disabled and handicapped persons, IDBI provides support to voluntary agencies with proven record to set up production-cum-training centres and conduct vocational training programmes for the benefit of entrepreneurs belonging to this category.

National Bank for Agriculture and Rural Development

4.12 National Bank for Agriculture and Rural Development (NABARD) was set up on July 12, 1982. NABARD took over the functions of the erstwhile Agricultural Refinance and Development Corporation (ARDC) and refinancing functions of RBI in the sphere of rural credit. In case of State Co-operative Banks and Regional Rural Banks, NABARD has been the refinancing agency for the entire rural credit system within the population limit of 10,000. NABARD provides assistance by way of refinance to artisans, village and cottage industries and other allied activities. From December 1983, NABARD has extended refinance facilities to eligible banks (state co-operative banks as well as commercial banks including RRBs) for their term lending for modernisation of looms, construction of work sheds and establishment/renovation of emporia of apex weavers' societies and Handloom Development Corporations.

4.13 NABARD has constituted task forces on various sub-sectors of decentralised industries viz., khadi & village industries, handicrafts, handlooms, sericulture, coir etc. After consideration of the various reports of the task forces, the Committee suggests that the task force reports should be examined expeditiously and recommendations implemented suitably to give a thrust to the flow of credit to the aforesaid sub-sectors.

4.14 Important policies and programmes operated by NABARD for extending financial assistance to VSI sector are given below:

(a) **Handloom Industry**

4.15 NABARD provides accommodation to State Co-operative Banks at concessional rate i.e. 2½%

below the bank rate for financing apex/regional weavers' societies in respect of working capital requirements for procurement and marketing of cloth. Initially, the scheme covered only handloom weavers societies and was subsequently extended to silk and woollen handloom weavers societies as well as to powerloom and polyester handloom weavers societies. The State Co-operative Banks are also provided assistance for financing apex/regional rural societies for trading in yarn. Assistance for working capital is extended by way of credit limits sanctioned on an annual basis. Refinance facilities are also available to State Cooperative Banks (SCBs) through Central Cooperative Banks (CCBs) for financing weavers and other rural artisans engaged in any of the approved 22 broad categories of cottage and small scale industries through Primary Agricultural Credit Societies (PACS)/Large-Sized Agricultural Multi-Purpose Societies (LAMPS)/Farmers Service Societies (FSS). This is being done to ensure that artisans covered in the rural and semi urban areas and who cannot form individual cooperative are also covered. However, the off-take of concessional credit has been very poor.

4.16 The extent of credit made available by NABARD for the handloom industry is indicated below:

(Rs. crores)

Purpose	Limits sanctioned		Outstanding	
	1981-82	1982-83	1981-82	1982-83
1. Production and marketing of handloom products.	97	145	57	116
2. Trading in yarn	10	9	NA	NA

As regards the refinance for term lending introduced in December 1983 for handloom industry, banks are yet to avail of the assistance being provided by NABARD.

(b) **Small Scale Industries**

4.17 Twenty two broad groups of cottage and small scale industries (other than handlooms) have been considered as eligible industries for accommodation for financing their production and marketing activities. This accommodation is provided by NABARD to SCBs on behalf of CCBs for financing industrial cooperative societies against the necessary guarantee from the state governments. However, very little accommodation has been availed of by CCBs on behalf of industrial cooperatives. During 1982-83 the limits sanctioned to seven SCBs for the purpose aggregated Rs. 1.54 crores. only.

(c) **Coir Industry**

4.18 Refinance facility is also provided by NABARD for financing working capital requirements of coir/matting cooperative societies in Kerala.

(d) **ISB component under IRDP**

4.19 NABARD provides refinance facilities to financing institutions (commercial bank, RRBs and SCBs) to the extent of 90% of the loans given by them for Industry, Service & Business (ISB) component under Integrated Rural Development Programme (IRDP) subject to the conditions that the bank loan net of subsidy should not exceed Rs. 10,000 per beneficiary. This assistance is being provided on the pattern of refinance for agricultural and allied activities in IRDP. The banks have only to forward the prescribed application forms duly filled in either monthly or quarterly and there is no need for formulation of individual schemes by them for drawal of refinance.

(e) **Sericulture**

4.20 At present, NABARD provides refinance to banks against their term lending for sericulture activities comprising mulberry cultivation, rearing of cocoons and purchase of appliances. Thus, refinance assistance being extended by NABARD covers activities upto production of cocoons. Reeling and twisting yarn by setting up of units for the purpose may be covered in the future, in the light of the recommendations of the Task Force on Sericulture.

4.21 It may be observed from the above that refinance facility by NABARD is mainly for working capital requirements except in the case of sericulture and handloom industry. Further greater impetus is being given only for artisans and others engaged in industrial activities in the rural areas and are within the cooperative fold.

Role of Primary Lending Institutions

4.22 The groups constituted by the Committee during their visit to various centres dealt with the issue whether the institutional structure for extending finance to VSI sector at the grass root level is considered adequate or not. By and large, the network of banking system has spread in line with the needs of institutional finance of this sector. However, there is scope of further improvement in the functioning of the existing credit delivery mechanism at the grass-root level so that flow of credit to the VSI sector increases in the next decade or so. Among the primary credit institutions, cooperative banks and RRBs mainly provide credit for agricultural and allied activities. Their share in industrial advances is nominal except in respect of handloom weavers. This is due to the fact that within the village and cottage industries, Primary Co-operative Societies have been active particularly in respect of handlooms in certain States. Another healthy trend in respect of handlooms is the active role being played by some of the State Handloom Development Corporations to organise weavers outside the cooperative fold so that all support services are provided and institutional finance is arranged through the banking system.

4.23 The growth of industrial cooperatives has been rather tardy and a large number of industrial cooperatives are dormant. There are 30,000 indus-

trial cooperative societies in the KVI sector. There is need for an in-depth study and appropriate classification of dormant and active industrial cooperatives. Based on the study, there is imperative need to activise the dormant societies and take steps to accelerate flow of credit. RBI has taken up this matter with various State Govts. time and again and yet the progress in reactivating dormant industrial cooperatives has been rather slow. The Committee reiterates the need for activating/promotion of industrial cooperatives so that the artisans could organise themselves to get various support services including credit from the cooperative banking system.

4.24 Regional Rural Banks (RRBs) were set up pursuant to RRBs Act, 1976 with a view to providing institutional finance to agriculture and other sectors of economy, paricularly to the weaker sections. RRBs have been conceived as an institution which combines the local feel and familiarity with rural problems and an organisation with business-like outlook which the commercial banks possess. The RRBs in tune with their image as an institution to cater to the needs of the weaker sections have few levels in their heirarchy as compared to other scheduled commercial banks. RRBs are district level organisations and their operations are confined to the districts which are designated as their command area. There has been an impressive growth in the spread of RRBs and the plan is to further expand their net-work to cover more areas. RRBs have by and large confined their lendings to agriculture and allied activities.

4.25 The Committee is of the view that RRBs be made an integral part of an effective delivery system for increasing credit flow to individual artisans and village/cottage industries. The Branch Managers of RRBs should be empowered to sanction loans upto Rs. 25,000/- (Composite Loan Scheme). However, where bulk advances are required by registered institutions and State KVI Boards in excess of Rs. 25,000/- the credit needs shall be met through the commercial banks.

4.26 Organisational structure of RRBs, particularly at branch level should be suitably strengthened so that their share of lending to village and cottage industries records a gradual increase over the years.

4.27 There is need for effective coordination and integration of efforts between commercial banks and RRBs in respect of their lending operations to village and cottage industries. The Committee is of the view that RBI, IDBI and NABARD should work out modalities of such cooperation for promoting credit flow in an integrated manner to village, cottage and tiny units, including training of RRB officers.

4.28 Commercial banks mainly cover, in their lending operations to VSI sector, organised small scale industries and to a limited extent village and cottage industries. The experience of commercial banks, so far as financing of village and cottage industries is concerned, is from Seventies onwards. However, they have done pioneering work in extending credit to organised small scale industries after State Bank of India was set up in 1955 and subsequently following nationalisation of major commercial banks in 1969. The Committee after examining the view points expressed by different organisations, is of the view that having regard to the role that the commercial banks are expected to play in promotion of village and small industries, the present organisational structure needs to be considerably strengthened at various levels in general and at branch level, in particular. There are considerable implications of this suggestion, since strengthening of commercial banks branches at field level will involve administrative cost which might result in further erosion of bank's profitability. Therefore, the Committee is of the view that the network of the banking system at the grass-root level needs too be better planned. There is an urgent need for coordination among the different banks, so as to achieve the overall national objective of larger credit flow to village and cottage industries at minimum cost. The coordination between different banks will be in the sphere of demarcation of operations and other related aspects so as to bring a larger segment of village and cottage industries within the fold of existing institutional structure.

4.29 In this context, the importance of Lead Bank Scheme evolved by RBI following nationalisation of banks may be stressed. The Lead Bank Scheme has recently been reviewed by a Working Group of RBI. The lead bank has played an important role in preparation of credit plan of the districts and its follow-up for effective implementation. The credit plans need to be more effectively coordinated/dovetailed with the District Development Plans and the District Administration has to provide basic support so that the plan is properly formulated and systematically implemented. The thrust of the District Credit plan is more on agricultural and allied activities rather than on village and small industries. There is need for preparation of detailed credit plan for VSI sector and participating banks have to play a significant role in sharing the credit requirements of the districts so far as they relate to village and small industries sector. The success of the District Credit Plan will depend on effective coordination between lead banks which will represent the banking institutions, promotional agencies and local administration which will be responsible for support services of various kinds on behalf of the State and other agencies.

4.30 The Committee is of the view that among the primary credit institutions at the grass-root level, cooperative banks and RRBs should increase their lending to village and cottage industries. The commercial banks and SFCs should not only continue to extend credit to organised small scale industries including tiny sector and village industries, but take positive steps to promote further flow of credit to village, cottage and tiny sector for which specific targets may be fixed.

4.31 The recommendations of the Committee relating to institutional structure at the apex level are given in Chapter XI.

CHAPTER V

CREDIT POLICIES OF THE BANKS AND THE FINANCIAL INSTITUTIONS IN RESPECT OF THE VSI SECTOR

5.1 In accordance with the Industrial Policy Resolution/Statements of Government of India due importance has been accorded to the Village and Small Industries (VSI) Sector while formulating policies relating to institutional finance. The VSI sector falls within the category of the 'priority sector' identified by the Reserve Bank of India for institutional finance. The Working Group on Role of Banks in implementation of the New 20 Point Economic Programme (Ghosh Working Group) constituted by the RBI in March, 1982 has again examined the concept of the priority sector, particularly in the context of the provision of institutional finance under this programme. The Working Group has considered various aspects of the small-scale industry within the priority sector and recommended that there is no need to suggest any change in the criteria being followed for identification of beneficiaries under small-scale industry. However, the spectrum of village and small industries is large and diverse and therefore it would be useful to identify sub-sectors of VSI sector like the decentarlised sector and organised small-scale industries in relation to the policy relating to priority sector lending by banks and financial institutions.

5.2 According to the policy formulated by RBI in consultation with Government of India, banks have been advised to raise the proportion of their lendings to the priority sector of 40% of the total lendings by March 31, 1985. Within the priority sector, agriculture and small-scale industry constitute two major sub-sectors accounting for about 81% of the total advances under this sector. While separate sub-targets have been fixed for direct finance to be extented by banks to agriculture (including allied activities) no separate sub-target has been fixed for small-scale industries. However, artisans and village and Cottage industries enjoying credit limits upto Rs. 25,000 have been classified as belonging to the weaker sections along with certain other categories of borrowers. It has also been stipulated that bank advances to the weaker section should reach a level of 25% of the priority sector advances or 10% of total bank credits by March 31, 1985.

5.3 Within the VSI sector, limited institutional finance has been used by village and cottage units which account for the bulk of the entrepreneurs in this sector. With a view to bringing this sector within the fold of institutional finance, a major policy thrust needs to be given so as to provide a sharp focus to this sub-sector. In this context, the Committee recommends that the Reserve Bank of India may fix sub-targets for this sub-sector of the VSI sector.

5.4 The other important policy parameters laid down for the priority sector advances are:

(i) Credit-deposit ratio of banks in rural and semi-urban areas should not be less than 60%.

(ii) A target of 1% outstanding advances as at the end of the previous year has been fixed for advances under the Differential Rate of Interest (DRI) Scheme.

(iii) Within (ii) above, not less than 40% of advances should be given to SC/ST entrepreneurs and not less than 2/3rd of advances should be routed through rural and semi-urban branches.

(iv) Within the overall target fixed for the priority sector, a significant proportion may be allocated to the beneficiaries under the New 20 Point Economic Programme.

5.5 On an overall basis, most of the banks in the rural areas have achieved the stipulated credit-deposit ratio of 60%. The Committee recommends that suitable steps be taken by the Reserve Bank of India to achieve the stipulated minimum credit-deposit ratio in rural areas.

5.6 In regard to semi-urban areas, on an overall basis, performance in terms of credit-deposit ratio is around 51%. The Committee recommends taking of corrective measures by the Reserve Bank of India to achieve the minimum stipulated credit-deposit ratio of 60% by all banks.

5.7 Under the Differential Rate of Interest (DRI) Scheme, overall performance by the banking institutions is around 1.1% of the outstanding advances as at the end of 1982. The Committee recommends that suitable remedial measures be initiated by the Reserve Bank of India so that the banks which are lagging behind also achieve the limits laid down.

5.8 There are a number of schemes and programmes under which institutional finance is made available to the VSI sector. Government of India has taken a major initiative for alleviating poverty in the country by time-bound implementation of Integrated Rural Development Programme (IRDP). IRDP has been extended to all the blocks of the country with effect from October 2, 1980 and it is envisaged as one of the major instruments for raising the income of the poorer sections of the population. The objective under the programme is to provide assistance to identified families for raising their incomes to a level which will bring them above the poverty line. The

target group under this programme consists of Scheduled Castes/Scheduled Tribes (SC/ST), rural artisans, agricultural labourers, small and marginal farmers and others who are living below the poverty line. Families with an annual income below Rs. 3,500 are eligible under the programme. It is intended to provide such families, assistance in the form of subsidies and loans to enable them to take up viable economic activities which would generate additional income. The target is to assist on an average 600 families per block. It is further envisaged that out of 600 families identified in each block, 200 families may be assisted under the component termed as 'Industry-Service-Business' (ISB).

5.9 The National Bank for Agriculture and Rural Development (NABARD) has formulated a scheme for extending refinance facility under the ISB component of IRDP from January 1983. The trend in the assistance under this activity in the first half year of its operation (Annexure-III) reveals that the bulk of assistance under ISB component in some of the States has gone to business activities. There is need for a proper balance between the three components so that the industry and service components also get adequate financial assistance from institutional sources.

5.10 In this context, the Committee has examined in detail the problems at the grass root level for identification of beneficiaries under IRDP. It is clear that the agencies at the grass-root level need to reorient their policies significantly so that the beneficiaries are identified in a systematic manner and bankable schemes are formulated.

5.11 District Rural Development Agencies (DRDAs) have been designated as the co-ordinating agencies for implementation of the IRDP. The IRDP covers a large and diverse type of schemes. Government of India has already set up District Industries Centre (DIC) at the district level for implementation of Industrial Development Programmes. DICs have also been designated as nodal agencies for implementation of the scheme for employment to educated unemployed youth which also covers ISB component. The committee recommends that there is scope for further strengthening of co-ordination between the DICs and the DRDAs for effective implementation of ISB component of IRDP. Further, the Committee recommends that both DIC and DRDA must have an officer each exclusively dealing with small, village and cottage sector industries where such placements have not yet been done. This would facilitate proper identification of beneficiaries and schemes to promote balanced growth under ISB component of IRDP.

5.12 The Committee has also noted that small entrepreneurs at time have to encounter a variety of problems due to lack of effective co-ordination between DICs/DRDAs and banks. The problems arise mainly at the pre-investment stage of the loan proposals. Loan proposals sponsored by DICs/DRDAs are sometimes not approved by the banks due to doubts raised by the Branch Manager regarding viability of the scheme and/or capability of the entrepreneur. The Committee finds that DICs/DRDAs are primarily responsible for formulation of viable schemes. The proposals should be discussed by DICs/DRDAs with the concerned banks before they are forwarded to the banks. This brings into focus the need for strengthening co-ordination between DICs/DRDAs and the banks. The Committee is of the view that in cases of rejection of loan applications, a Committee consisting of representatives of DIC, DRDA and the lead bank should review the reasons for rejection and assist in the preparation of a viable scheme.

5.13 The Committee recommends that NABARD should undertake a quick review of assistance under ISB component and initiate remedial measures to rectify the imbalance mentioned earlier noticed in respect of lending under this component. The Committee is also of the view that there is need for building up an effective monitoring mechanism by NABARD in this regard.

5.14 Discussions with various organisations connected with promotion of VSI sector reveal the need for reorienting the attitude of bank personnel as well as of promotional agencies. The attitudinal changes can be brought about by way of intensive training programme with appropriate behaviourial inputs. The Committee recommends that following steps need to be initiated in this regard urgently.

(i) Training capacity in institutions/centres should be effectively utilised and where necessary, enhanced.

(ii) The course content of the programme should give greater emphasis to motivational and behaviourial aspects.

(iii) Number of programmes and their frequency should be increased.

(iv) There should be appropriate training of trainers.

5.15 The bank Branch Manager is central to the success of developmental efforts, including promotion of flow of credit to VSI Sector. Apart from training and motivation suggested above, there is need to link the career advancement to the contribution made by the officer in promoting flow of credit to the aforesaid sector. The Committee recommends that besides other parameters, the performance of the officer should be judged in terms of initiative taken in extending coverage to VSI sector. Employee Appraisal System, where necessary, should be modified accordingly, keeping in view the risk of failure inherent in lending under this sector, particularly when financial assistance is to be provided to weaker section without security for activities where viability may depend to a large extent on factors beyond the control of the borrower. In short, the innovative and constructive role of a Branch Manager should be given due weightage while appraising his performance.

5.16 In India, branch of a bank is viewed as an independent profit centre. With emphasis on priority

sector/weaker section/DRI lending, the profitability of a branch vis-a-vis the cost of funds made available by Central/Head Office is adversely affected in most of the cases. This can have a sagging effect on branch profitability and act as a deterrent to promoting flow of credit to VSI sector. The Committee recommends that 'Transfer-Price-Mechnism' operating in various banks should be given a fresh look in order to build-in an element of incentive, if not already there, to keep the Branch Manager motivated for playing his role in increasing flow of credit to artisans, village/cottage industries, tiny and SSI units.

5.17 The Committee has examined the role of Credit Managers in the DICs. When the DIC scheme was launched Credit Managers were deputed from the banks. Reserve Bank of India in consultation with Govt. of India have decided, as envisaged in the original scheme, gradual withdrawal of Credit Managers who were deputed from the banks. This process has been initiated and in majority of States, Credit Managers from the banks have been withdrawn. A view was expressed in the Committee that Credit Managers may be continued to be deputed from the banks to the DICs so that effective linkage between promotional agencies and banking institutions is maintained. Reserve Bank of India has already advised the banks to provide training facilities to the officials posted by the State Governments as Credit Managers in DICs. State Bank of India and IDBI have already conducted some training programmes in this regard. The Committee is of the view that the State Govts. should take necessary steps to post Credit Managers to the DICs where they have been withdrawn by the lead banks so that the programme of assistance to VSI sector does not suffer.

5.18 The Committee is of the view that there is need to strengthen the DIC set-up. This strengthening should ensure that the prescribed technical personnel are in position. Suitable training programmes should be organised for updating skills of these personnel.

5.19 The Differential Rate of Interest (DRI) Scheme was introduced in 1972 with a view to increasing the credit flow to the weaker sections for various productive purposes. The target group under DRI scheme is identified in relation to income concept i.e. Rs. 2000 per family per annum in rural areas and Rs. 3000 per family per annum in urban areas. Under this scheme, loans upto a ceiling of Rs. 6500 are provided to the weaker sections comprising Rs. 5000 as term loans and Rs. 1500 as working capital. Rate of interest charged by the banks under this scheme is 4% per annum.

5.20 A study was undertaken by the National Institute of Bank Management (NIBM) for assessing whether the target groups under the DRI scheme have been benefited and whether the scheme has achieved the purpose of assisting the poorer people to improve their socio-economic conditions. The study has revealed that while some borrowers under the scheme have recorded positive changes in their economic levels nearly 50% have failed to record improvement.

5.21 The Committee has noted that a task force has been constituted by the Ministry of Finance to examine various aspects of the DRI Scheme with a view to suggesting necessary policy changes. In view of this, the Committee has not considered it appropriate to frame any specific recommendations in regard to DRI Scheme.

5.22 Pursuant to the recommendation of Tambe Working Group, the Composite Loan Scheme (CLS) was introduced in 1978. The scheme has been designed specifically to meet the financial requirements of artisans, village and cottage industries where total credit requirements for equipment, finance and working capital is upto Rs. 25,000. The terms and conditions of the scheme are very liberal. The composite term loans are payable in 7 to 10 years or even more with a moratorium of 12 to 18 months for payment of interest and principal. While sanctioning term loans the banks are largely guided by the viability of the project and no margin or collateral security/guarantee is insisted upon. The maximum rate of interest chargeable for such loans is 10 per cent for the units located in specified backward areas and 12 per cent for those located in other areas. The loan requirements of the borrower for one operating cycle are assessed liberally and a contingency of 10 to 20 per cent is added to the amount in the original sanction itself to take care of the needs arising out of operational difficulties or some other consumption requirements.

5.23 Unlike the previous two schemes discussed in the preceding paragraph viz., IRDP and DRI, this scheme relates to industrial sector only and is specially designed to cater to the needs of village, cottage & tiny units. The primary credit institutions viz., commercial banks, co-operative banks, Regional Rural Banks (RRBs) and State Financial Corporations (SFCs) provide assistance under the scheme and are eligible for 100% refinance at concessional rate of interest from IDBI. The scheme has been in operation over nearly 5 years. On the basis of refinance data available from IDBI, it is observed that over the period 1979-83, about 40,000 entrepreneurs have received assistance under the scheme with aggregate cumulative sanction of Rs. 29.4 crores. About 50% of the entrepreneurs have been covered by the SFCs with total amount of sanctions of Rs. 21.3 crores and the balance 50% of the entrepreneurs have been covered by the banks with a total amount of sanction of Rs. 8.1 crore. Refinance assistance sanctioned by IDBI to SFCs and banks under the Composite Loan Scheme has been given in Annexure-IV.

5.24 The scheme has not made much headway in so far as it relates to the banking system. A recent study conducted by the Reserve Bank of India on a sample basis covering 130 bank branches in different States has revealed the following:

(i) only 12 out of 130 branches had granted composite loans.

(ii) some of the Branch Managers were not even aware of the scheme,

(iii) The period of loan ranged from 2-5 years without any provision of initial moratorium as against repayment of 7-10 years or even more where necessary with an initial moratorium period of 12-18 months both for interest and principal provided under the scheme,

(iv) Most of the loans were granted against collateral security and in certain cases even third party guarantee was insisted upon, whereas the scheme does not envisage any collateral security,

(v) margins were stipulated between 15-20%, against no margins under the scheme,

(vi) concessional rate of interest specified for composite loans was not charged,

(vii) credit requirements of the borrowers were not liberally assessed taking into account requirements of one borrowing cycle and contingency of 10-20% as also provision of consumption expenses, and

(viii) In case of some of the banks discretionary powers were not vested in Branch Managers to sanction loans without reference to higher authorities.

5.25 In addition, some banks expressed difficulties in devising suitable accounting and monitoring procedures due to relatively long gestation period and repayment schedule. The major reason for the poor performance of the scheme so far appears to be the attitude of the Bank Managers who generally do not have a developmental approach as expected under the scheme. The findings also confirmed that though there has been sufficient delegation of powers at the level of Branch Managers and the scope of the scheme is explicit and liberal, the performance is far short of needs and expectations. There have been substantial communication gaps between those who formulate the policies and those who are ultimately expected to implement them. In view of the rather disturbing findings, the Committee suggests that Reserve Bank of India should continue to monitor these aspects periodically for suitable remedial actions by the banks.

5.26 An inhibiting factor identified in the case of the Composite Loan Scheme is the absence of suitable accounting procedure. Provisions for items like moratorium, simple rate of interest, break-up of advance data would necessitate changes in existing Book-keeping/Accounts. The Committee that RBI should prescribe a uniform accoun cedure for all banks.

5.27 In the light of the experience gained, mittee would lik to suggest some changes Composition Loan Scheme. The initial mo period under the scheme should be restricte months. The repayment period of the loan s linked to the surplus generated by the unit maximum of 5-7 years.

5.28 Reserve Bank of India has set up a Disciplinary Group. This group, apart fro as the apex co-ordinating and monitoring ag adequate flow of institutional credit to the V (especially in rural and semi-urban areas), to consider issues relating to adoption of the for providing integrated marketing assistanc group consists of representatives of banks Khadi and Village Industries Commission Handloom & Handicraft Board etc. It was that this group apart from identifying the reasc inhibit the flow of credit to this sub-sector a ing steps to remove such hurdles would also specific schemes to be formulated by various like KVIC, Handloom and Handicraft Board an integrated approach to production and n No specific schemes have, however, been dra far. The Committee recommends that the I ciplinary Group should be activated. It sho tion as a high powered body to give suitab lines to the banks in the matter of extendi tance to the decentralised sector. With th representation of KVIC, Handloom and H Board etc., it should be possible to devise bankable schemes, areas-specific or activit This group should also go into the operatio Composite Loan Scheme and see how best th could be modified for ensuring increased assistance to the decentralised sector.

5.29 Having discussed the credit policy an schemes specially designed to provide in finance to the village and small industries, be relevant to mention important specifi relating to credit availability of various sub- the village and small industries sector.

Khadi & Village Industries Sector (KVIC)

5.30 KVIC has classified khadi institu major, medium and small sized institutions view to directing the first two categories to banks for their credit requirements. The cr classification of these institutions are as und

(a)	*Major Institutions*—	production or sales exceeding Rs. 75 lakhs per annum, whichever is higher.
(b)	*Medium Institutions*—	production or sales figures above Rs. 15 lakhs but upto and inclusive of Rs. 7 annum whichever is higher.
(c)	*Small Institutions*—	production or sales upto and inclusive of Rs 1 Lakhs whichever is

5.31 At present, for major institutions, 75% and for medium institutions, 25% of the incremental credit requirements of the working capital are being met by the banks. The financial requirements of small institutions are being met directly by the KVIC.

5.32 The major and medium institutions are availing of the finance from the banks at rates of interest prescribed by the Reserve Bank of India, which are subsidised above 4% by Khadi and Village Industries Commission/Khadi and Village Industries Boards (KVIC/KVIBs) against 'Interest Subsidy Eligibility Certificate'. The 'Interest Subsidy Scheme', however, does not cover individual entrepreneurs except under cottage match industry. In so far as individual artisans are concerned, they too are excluded if they directly resort to bank finance. However, the State Boards can raise loans from banks for assisting individual artisans.

5.33 The Committee notes that the Interest Subsidy Scheme introduced by Government of India in May, 1977 has been working quite satisfactorily and recommends its extension to individual small entrepreneurs.

5.34 It has been observed that in regard to Interest Subsidy Scheme, the differences between KVIC and banks relate mainly to procedural aspects. The Committee suggests that a Standing Committee comprising representatives of KVIC, KVIB, RBI, NABARD and IDBI may be constituted to sort out the differences.

Handloom

5.35 In the handloom sector, there are two types of organisations at the field level viz. (a) Handloom Development Corporations and (b) Handloom Co-operative Societies. The Handloom Development Corporations are expected to promote and assess the growth of handloom industry particularly that sector which is not covered by the co-operatives. Direct beneficiaries of Handloom Development Corporations are handloom weavers outside the co-operative fold. The Handloom Development Corporations depend on commercial banks for meeting the credit needs of the weavers. The banks provide credit to the weavers on the recommendations of these Corporations. The Handloom Development Corporations have highlighted the problems of inadequate resources for working capital and for marketing arrangements. They have also suggested that the flow of credit to this sector should not only be in the form of working capital for production and marketing but also investment credit for pre-loom facilities like setting up of dye houses and bleaching units, for acquisition of new looms & modernisation of old looms, for post-loom activities like processing of grey cloth and finally for establishment of show-rooms and emporia. They have also raised the issue that the rate of interest applicable to weavers is not being made available to the Corporation though the target group served by the Corporation is the handloom weavers. The Committee considers that credit for working capital and investment needs may be made available by the banks to Handloom Development Corporations on concessional rates of interest as applicable to weavers in the co-operative sector. This would amount to a reduction in the rate of interest of about 2 per cent which should be shared equally by the Central and State Governments.

5.36 In the co-operative sector, NABARD provides re-finance assistance to meet the financial requirements of handloom co-operative societies functioning either as production or marketing societies. It has been observed that performance of co-operative societies has not been satisfactory in certain States. Many of the weavers co-operative societies are dormant. It has also been noted that District Central Co-operative Banks are mostly oriented towards financing of agriculture and take unduly long time to finance handloom co-operative societies. Absence of separate handloom financing cells in the Central Co-operative Banks in the handloom concentrated districts has also been noted. It is suggested that whenever the working of a weavers co-operative society is satisfactory but adequate credit is not flowing to it due to weakness of the Central Co-operative Bank, the possibility of financing weaver societies directly by the State Co-operative Banks or through RRBs should be explored.

5.37 One of the major operational problems faced by the weavers co-operative societies relates to the rebate system on account of the fact that sales are concentrated in festival seasons. There is generally delay in the settlement of rebate claims in the Government Departments which results not only in blocking of society's funds but also in adversely affecting production and payment of higher interest on borrowings. The Committee suggest that each State Government should make available atleast a part of the budgetary provision made by it towards rebate every year to the apex weavers' society in the beginning of the year. This can be credited to a separate fund with the apex society designated as Rebate Adjustment fund. As and when rebate claims are settled during the year, the payments made by the Govt. may also go to this fund till such time as the budget allocation is fully utilised.

Handicrafts Sector

5.38 Institutional credit under handicrafts sector flows to (a) Individual craftsmen, (b) Handicrafts Co-operatives, and (c) State Handicrafts Development Corporations. Individual craftsmen get credit needs from co-operative banks but there are very few co-operative societies working in this sector. So far as co-operatives are concerned, the pattern of financing co-operatives in the handloom sector should be followed in the handicraft sector also. The State Government should extend 3% interest subsidy to handicraft co-operatives as well. The NABARD may also consider raising the quantum of working capital to 50% to handicrafts societies as against 40% in case of handloom societies.

5.39 The Handicraft Development Corporations which normally avail of cash credit facilities from commercial banks mainly for meeting their working

capital requirements against the security of hypothecation of handicraft items should be allowed the same concessional rate of interest on which the bank advances are being made to handicrafts artisans. This would amount to a reduction in the rate of interest of about 2 per cent whieh should be shared equally by the Central and State Governments.

Sericulture Sector

5.40 Credit requirements in sericulture are both for long-term and short-term purposes. Long-term loans are required for mulberry cultivation, including minor irrigation and for rearing equipment, rearing houses, etc. Short-term loans are needed for maintenance of mulberry gardens and for processing activities. At present, commercial banks, RRBs, Land Development Banks, Apex Co-operative Banks and Distriet Central Co-operative Banks are extending finance for sericulture. The commercial banks and RRBs finance sericulturists directly or through sericulturists' societies or primary agriculture societies assigned to them. In the co-operative system, there are specially organised sericulturists-cum-farmers service societies or primary agriculture societies and land development banks. However, it is noted that the experience of financing through the sericulturists-cum-farmers services societies has not been satisfactory on account of organisational problems and the default of the members. Further, in such areas where these societies are working satisfactorily they are unable to obtain finance from District Central Co-operative Banks on account of their non-eligibility to obtain refinance from RBI/NABARD due to heavy overdues. It is for consideration that where co-operatives are constituted for financing sericulturist's activities, sericulturists might be financed by commercial banks or RRBs in the areas where co-operatives are weak. Where primary societies are functioning satisfactorily but District Central Co-operative Banks are weak and unable to obtain refinance from NABARD such societies may be financed directly by State Co-op. Banks or they may be allotted to RRBs if they have been established in rural areas. One of the major problems in sericulture schemes is the in-eligibility of sericulturists for fresh credit on account of their past defaults. In order to push through the programme, it is necessary that some relaxations be made at least in the case of non-wilful defaulters. Defaulters who have repaid at least 50% of the demands should be considered as non-wilful defaulters and given fresh loans for maintenance and rearing after converting their outstanding dues into medium-term loan repayable in three years in convenient instalments. Such non-wilful defaulters should also be given fresh loans for minor irrigation, new planting, rearing equipments and rearing houses. In future whenever crop failure occurs on a large scale, the State Govt. should examine the position in consultation with the financing banks and NABARD.

Coir Sector

5.41 Coir is highly labour intensive agro-based cottage industry. The major coir producing States are Kerala, Tamil Nadu, Karnataka and Andhra Pradesh. The Coir industry is both in the co-operative sector as well as in the private sector. Financing of industrial co-operatives is the business of co-operative banking structure. Refinance facilities are available from NABARD mainly in respect of produetion-cum-sale of primary coir co-operatives (yarn, mats and mattings). At present, no part of the limit sanctioned to a bank by NABARD can be utilised by it for financing a society which is engaged in the sale of coir products not produced on its own account by its members. NABARD should consider providing refinance facilities on liberal terms as also for building up of a nexus with the National Co-operative Development Corporation (NCDC) with a view to formulating such schemes for financing the coir sector.

5.42 State and District Central Co-operative Banks should be asked by the State Govts./NABARD to take active interest in obtaining credit limit applications from the societies in time, scrutinising them without delay and forwarding the same to NABARD through proper channel within the stipulated time every year. The Committee is of the view that the procedure in this regard should be streamlined by NABARD and should be made adequately clear to the coir workers and artisans. Considering the fact that the turnover of the coir products takes place once in 6 months, refinance facilities for working capital requirements from NABARD may be raised from 40% to 60% of the anticipated sales.

Small Scale Industries Sector

5.43 Based on some studies of the Reserve Bank of India the Committee finds that small scale units have received relatively larger institutional finance than the tiny, village and cottage industries. Further, institutional finance has to be linked with production and turn-over. With the introduction of the 20-Point Programme and the policy thrust towards tiny, village and cottage industries on account of their employment, potential, the share of small scale in the total institutional finance to the VSI sector may show a decline in the years to come. The Committee was informed that adequate credit for the small scale sector is not available at right time and in right amount. The Committee is of the view that such instances should be brought to the notice of the banks, RBI and the IDBI.

5.44 The Committee deliberated on the problems of small scale industries which do not receive adequate and timely finance. The assessment of working capital needs by banks are generally not based on realistic norms and they do not keep in view the various constraints. Even the assessed working capital requirements are not supplied to the units in time and they are asked to come again and again to the banks. As a result the small scale units sometimes start their cooperations with inadequate working capital which results in liquidity problems and adversely affects their viability. Another problem posed to the Committee is that the State Financial

Corporations sanction term loans and then the borrower has to approach the Commercial Banks for working capital arrangements. The requirements as assessed by the SFCs, are many a times not accepted by the Commercial Banks. Further, there is long delay in the sanction of the working capital by the banks whereas the term loan had already been disbursed. As a consequence, the small scale borrower has to continue to pay interest on the term loan whereas production gets delayed.

5.45 The Committee is of the view that norms prescribed by banks in assessing the working capital requirements of small scale industries should be re-examined by the Reserve Bank of India and suitable guidelines issued to banks.

5.46 There is urgent need for expeditious implementation of various suggestions made by the Bhide Working Group on co-ordination between SFCs and banks. A group of the Committee has received the impression during their visit to various centres that the recommendations of the Working Group have not been implemented in true spirit. The problem here is that when the application is received by SFCs for term loan, the proposal is rather premature for working capital assessment by banks. It takes time before a project gets ready for production. In some of the States, efforts have been made by the SFCs to associate banks from the beginning so that working capital tie-up can be completed without difficulty by the small entrepreneurs. The success of these efforts has, however, been limited due to various reasons. The Committee after considering the suggestion recommends that as far as possible there should be a single window dispensation for village and tiny sector industries to avoid problems referred to earlier. The Committee suggests that a mechanism similar to inter-institutional machinery evolved by all-India term lending institutions needs to be established for effective coordination between the lending agencies. The State level forums will meet periodically, say once a month, to discuss proposals received for consideration of financial assistance, where all aspects of the proposal including working capital requirements could be discussed in-depth and a view regarding the proposals taken.

5.47 The Committee has also discussed the importance of District Credit Plan (DCP) prepared by lead banks under the overall guidance of the RBI. District Credit Plans are important documents in so far as they relate to credit requirements of various sectors and a consortium approach to financing sectoral programmes under the District Credit Plans. RBI has periodically reviewed the methodology for the formulation of District Credit Plans so that they ultimately become effective instruments for credit planning at grass root levels. The Committee suggests that the scope of the DCPs should be further widened to include requirements of credit for the village, cottage, handicrafts etc., tiny and other small-scale units. Accordingly, steps can be initiated by promotional agencies and banks for identification of entrepreneurs, training of entrepreneurs, formulation of schemes, sanction of financial assistance, sharing of finance by various banks and sharing of term loans by SFCs and banks on a systematic basis.

5.48 The small scale industries also face problems regarding supply of raw materials and marketing facilities. State Small Scale Industries Development Corporations (SSIDCs) and certain other agencies have been set up specifically to undertake these activities. The Committee is of the view that the performance of these Corporations/agencies needs to be evaluated with a view to reorienting their policies so that they become effective instruments for providing support services to VSI sector. Representative of SSIDCs are of the view that they do not get priority status from the banks for undertaking these activities. As a result their services tend to be costly to the small-scale entrepreneurs.

5.49 The Committee has noted the recent instructions issued by the RBI to various banks in this regard. The advances granted to organisations which have been established for the purpose of developing the village and cottage sector by the Central and State Govts. or by recognised promotional and marketing organisations like KVIC for the purchase and supply of inputs and/or marketing the outputs of the village and cottage industries may be charged concessional rate of interest at 12.5% per annum. In view of this provision, there should be no difficulty in RBI extending concessional rate of interest to organisations engaged in similar activities for the benefit of/assistance to tiny sector units also. The Committee recommends that the benefit of the concessional rate of interest as applicable to village and cottage industries should be extended to the aforesaid organisations in respect of their support services to tiny sector units also.

5.50 The incidence of sickness is also growing so far as it concerns small scale industries. This problems has been highlighted by many organisations during the discussions at various meetings of the Committee. The Committee is of the view that State Level Inter-Institutional Committee (SLIICs) constituted under the convenorship of RBI need to be made more effective so that these forums may consider sickness in SSI sector on a consortium basis and initiate rehabilitation programmes in a time-bound manner. Further, participation at such meetings should be of a sufficient senior level to commit the organisation for speedy rehabilitation of the sick units. Credit delay may prove suicidal for such units. The Committee also recommends that magnitude of sickness in KVI sector needs to be studied for taking remedial measures. The Committee has noted the initiative taken by the IDBI to formulate special schemes for rehabilitation of sick SSI units and scheme for modernisation of small scale industrial units.

CHAPTER VI

REVIEW OF CREDIT FLOW TO THE VILLAGE AND SMALL INDUSTRY SECTOR

6.1 The institutional structure for the flow of credit, both short-term and long-term for VSI sector comprises of commercial banks, foreign banks, co-operative banks, Regional Rural banks (RRBs), State Financial Corporations (SFCs), State Small Industries Corporations and National Small Industries Corporation etc. The banking system comprising primarily of commercial banks, RRBs and co-operative banks provides both working capital and term loan to VSI sector. The SFCs provide mainly term finance (except in case of the Composite Loan Scheme) to the VSI sector. Trends in the assistance provided to the VSI sector by primary credit institutions are given below.

Commercial banks (including RRBs)

6.2 Commercial banks in India as on March 31, 1984 comprised the State Bank of India and its seven subsidiaries (8), other nationalised banks (20), foreign banks (18), other scheduled commercial banks (34), RRBs (159) and non-scheduled commercial banks (4)—totalling (243). Total number of branches of commercial banks as on March 31, 1984 aggregated 44583 and RRBs 7839 covering 280 districts. Commercial banks are an important source of finance for industries. Their involvement in lending to VSI sector has been increasing ever since the setting up of State Bank of India and, in particular, after the nationalisation of major banks in 1969. Commercial banks provide mainly working capital. Their support by way of term loans to the VSI sector has also grown over the years.

6.3 According to data compiled by the RBI, financial assistance granted by commercial banks to the SSI sector has increased significantly over the last decade. Advances of scheduled commercial banks to small-scale industries have recorded more than a four-fold increase between December 1974 and December 1982. The percentage of outstanding credit to the value of production in small-scale industries increased merely from 11.0% at the end of December 1984 to 12.7% as at the end of December 1982, while production at current prices in the small scale sector increased by about 280 per cent during the same period. Further, as percentage to the total priority sector advances, the share of the small scale sector declined from 48% in December 1974 to 40% by December 1978. Thereafter it witnessed a continuous decline and stood at 36% in December, 1982 (Annexure V).

6.4 The outstanding credit to small scale industries from commercial banks increased from Rs. 211 crores constituting 6.9% of total bank credit as at the end of March, 1968 to Rs. 4563 crores as at end of June, 1983 constituting 12.9% of the total bank credit (Annexure VI). Data relating to commercial banks advances to various sub-sectors viz. artisans, village and cottage industries, tiny sector units and other SSI units are given in Annexure VII. It may be observed from the Annexure that the number of units under artisans, village and cottage industries which stood at 2.96 lakhs as at the end of December 1979 went upto 4.39 lakhs as at the end of December, 1982 and the amount outstanding increased from Rs. 51.44 crores at the end of 1979 to Rs. 109.85 crores at the end of 1982. Although the percentage share of artisans, village and cottage industries in total loans and advances to SSI units increased from 1.95% in 1979 to 2.50% in 1982, the share continues to be inadequate if account is taken of the credit needs of the sector and the contribution of the sector to the total industrial production and employment in the country.

6.5 While a major part of commercial banks' assistance to industrial sector is for meeting working capital requirements, the banks also meet a part of the term finance requirements of industries. According to data compiled by RBI, relating to accounts with credit limits over Rs. 10,000 as at the end of June 1981, the outstanding term credit to small-scale industries from commercial banks including RRBs stood at Rs. 554 crores as against Rs. 129 crores as at the end of June 1974. Of the advances to the SSI sector by the commercial banks, the share of term loans increased from 13% as at the end of June 1974 to about 19% as at the end of June 1981.

6.6 The Committee suggests that the RBI should continue to collect on a regular basis, classified data for artisans, village and cottage industries, tiny sector and other SSI units to support formulation of appropriate policies for each category and in order to review the performance meaningfully. The percentage of outstanding credit to VSI sector to gross bank credit was 13.2% in June 1981, 13.1% in June 1982 and had declined to 12.9% by June, 1983. The declining share of VSI sector in total priority sector suggests that suitable measures may be evolved to ensure adequate flow of credit to artisans, village and cottage, tiny and small scale sector units in relation to their requirements.

Co-operative Banks

6.7 The co-operative banks though mainly concerned with financing of agricultural sector, also finance to a limited extent the industrial sector by way of advancing both working capital and term loan facilities. In the co-operative sector, credit facilities are

provided by co-operative banks (other than Urban Co-operative Banks) to handloom weavers and to a small extent to other co-operative societies for production and marketing requirements. Urban Co-operative Banks provide credit facilities to individual units outside the co-operative fold. The Reserve Bank of India had in 1968 recognised 22 broad groups of cottage and small-scale industries in addition to cotton, woollen & silk handloom weaving and powerloom weaving as eligible industries for finance. This function has since been taken over by NABARD. NABARD provides refinance at 2½% below bank rate to the State Co-operative Banks on behalf of the Central Co-operative Banks for financing industrial societies and to the Urban Co-operative Banks for financing industrial units outside the co-operative sector but falling within its population limit. The Reserve Bank of India also extends refinance facilities at 3% below bank rate to State Co-operative Banks on behalf of Central Co-operative Banks for financing weavers and other rural artisans engaged in any of the approved broad groups of cottage and small-scale industries through Primary Agriculture Credit Societies (PACS), Farmers Service Societies (FSS) and Large Sized Agriculture Multi Purpose Societies (LAMPS).

6.8 The credit limits sanctioned by Reserve Bank of India during 1981-82 to industrial co-operatives through State and Central Co-operative Banks for financing production and marketing of cottage and small-scale industries and to rural artisans through PACS amounted to Rs. 5.61 crores and those sanctioned to individuals through Urban Co-operative Banks to Rs. 52.80 crores. During 1982-83, the refinancing activity of RBI on behalf of all industrial co-operative societies and rural artisans was taken over by NABARD and the credit limits sanctioned by NABARD to industrial co-operatives through the State and Central Co-operative Banks and the rural artisans through PACS amounted to Rs. 7.90 crores. Refinance in this regard to Urban Co-operative Banks is however being provided by the Reserve Bank of India as hitherto. The credit limits sanctioned by RBI to State & Central Co-operative Banks for financing production and marketing of Handloom Weavers Co-operative Societies amounted to Rs. 97.27 crores in 1981-82. This function was also taken over by NABARD and the limit sanctioned by NABARD for this purpose in 1982-83 aggregated Rs. 145.31 crores.

6.9 As on June 30, 1981, there were 377 Central Co-operative Banks (CCBs), 1117 Urban Cooperative Banks (UCBs) and 27 State Co-operative Banks (SCBs) in the country. The CCBs and UCBs functions under the SCBs in each State. According to provisional figures available, the industrial sector accounted for only 4.7% of the total outstanding credit of Rs. 1772 crores advanced by the SCBs as on June 30, 1981. The outstanding term loans to industry stood at Rs. 6.2 crores as at the end of June 1981. On the same date, of the total outstanding credit of Rs. 2956 crores advanced by CCBs, industrial sector accounted for Rs. 95.3 crores including Rs. 5.6 crores of term loans.

6.10 The Committee is of the view that co-operative banks have not made much headway in providing finance to village and cottage industries, except to the handloom sector, owing to various reasons such as reluctance on the part of co-operative banks to provide assistance to this sub-sector, their small equity base, lack of managerial support etc. and an overall lack of development of industrial co-operatives. In some of the States multi-purpose societies at the grass root level have provided good organisational structure for assisting activities including village and cottage industries. The State Government should take active initiative for revitalising industrial co-operatives to enable the co-operative credit institutions to provide more financial assistance to the village and cottage industries sector.

6.11 The Artisans Employment Guarantee Scheme is a step in the right direction. The experience in Maharashtra is worthy of emulation with suitable modifications to take care of problems like under-financing, linkages for raw materials and marketing etc. The Committee recommends that this scheme should be suitably extended to promote flow of credit to artisans.

State Financial Corporations (SFCs)

6.12 The institutional set-up for the provision of term credit mainly to small and medium scale industries at the regional level is that of the SFCs which were set up pursuant to the SFCs Act, 1951. At present, there are 18 SFCs whose jurisdiction normally extends over the States where they are located. Besides, there are 8 SIDCs which are performing the functions of SFCs. The SFCs have been providing term finance to the industrial sector since the early 50's. The share of small-scale industries in the total assistance from the SFCs has been gradually increasing. During the period 1978-79 to 1982-83, assistance sanctioned and disbursed by SFCs to VSI sector recorded an annual average growth rate of 67.3% and 63.3% respectively. At the end of 31st March, 1983, total sanctions of loans to VSI sector by all SFCs aggregated Rs 1873 crores or over 65 per cent of their total loans of Rs. 2920 crores. Data relating to SFCs assistance to VSI sector is shown in Annexure VIII.

Delegation of powers

6.13 One of the major recommendations of the Report of the High Powered Committee for examining banks credit problems of small scale industries (Puri Committee) was that the banks should delegate discretionary powers in such a way that at least 60-80% of the credit decisions are taken at the branch level itself. The report of the Working Group on small-scale industries with special reference to DICs (Tambe Committee) re-emphasised this aspect and stated that the Branch Managers should have discretionary powers to sanction advances at their level upto Rs. 25,000. With a view to finding out the prevalent practice in the major nationalised banks, a

questionnaire was issued to six major nationalised banks and their findings are as under:

(i) by and large, credit proposals received from borrowers are disposed of on the basis of recommendations of the above committees;

(ii) the rejection of any application for financial assistance is done at a level higher than that of a Branch Manager. This provides an in-built check to reduce rejection of applications;

(iii) the public is kept informed of the various credit facilities available from banking sector by giving publicity in newspapers, periodicals, hand-outs brochures etc.; and

(iv) adequate training facilities have been provided to train the staff in the field and branches appear to have been equipped with qualified staff to handle the job. Periodical training/operational write-up, manuals have been provided to branches for their guidance.

6.14 It would thus appear that the banks by and large, have taken adequate steps to give effect to the recommendations made by the Puri Committee for the flow of assistance to the SSI sector. Nevertheless, so far the performance of the banks in providing credit to the other industrial sector of the small scale is concerned, it has been much less satisfactory. A quick sample study undertaken by the RBI in regard to the Composite Loan Scheme has revealed the poor performance of banks in providing credit to artisans and village and cottage industries (for details refer to paragraphs 5.22 to 5.25 of Chapter V).

6.15 With a view to increasing the credit flow to the village and small industries sector falling under the definition of small scale industrial sector, the Committee considers that the following steps are necessary:—

(a) **Delegation**

Sufficient powers will need to be delegated by the banks and the financial institutions to their Branch Managers (where not done so far) to ensure that requests for credit from such industries are dealt with expeditiously at the local level. The decision taken in 1979 that all banks should delegate to their Branch Managers powers to sanction credit to the extent of Rs. 25000 to such industries needs to be implemented and further delegation may also become necessary.

(b) **Orientation**

Top priority should be given to the training of Branch Managers so as to bring about necessary transformation in their attitudes and their approach to lending to this sector.

(c) **Co-ordination**

The grass-root representatives of banks and financial institutions would also need to work in close association with the DICs and other promotional agencies.

(d) The top management of the banks and the financial institutions should take greater interest in the implementation and monitoring of the Composite Loan Scheme.

6.16 The recommendations made above will be effective only if the banks and the financial institutions also improve the existing arrangements in the following areas as suggested by the Tambe Committee on apex financial institution for the small and decentralised sector of the industry:—

(i) The information system within the institutions would have to be vastly improved. It seems that several months elapse between the issue of instructions by the Head Offices of banks and the financial institutions and their effective implementation at the branch level. The upward flow of information i.e. feed back is still slower. Quicker flow of information and instructions is highly conducive to effective implementation of a developmental effort which by its very nature, will require flexibility and frequent modification of policies in response to changes in economic conditions.

(ii) There is also need for effective monitoring of the functioning of the branches not so much from the regulatory point of view as with a view to seeing that the institutional credit is being effectively utilised. Such monitoring can give a good feed back to the management of the concerned banks and financial institutions, signalling need for changes in the lending policies or terms. The process of monitoring should also provide guidance to the field staff in their operations.

(iii) The Branch Manager is a crucial person for the success of all efforts for the promotion of decentralised sector. This fact has to be well recognised and there should be better appreciation of his role than hitherto. The Branch Managers will have to be motivated and encouraged to be increasingly innovative and constructive in responding to requests for assistance from this sector. It is also to be recognised that in large number of cases they will have to extend financial assistance without security and for activities viability of which will depend to a large extent on factors beyond the control of the respective borrowers. In such situations, in view of the high risks of failures, the Managers are likely to be hesitant in dealing with the proposals unless they have an assurance from their higher management that their performance in this sphere would be judged keeping in view fully the difficulties that they experience in the field and the risks inherent in such lendings.

6.17 To sum up the Committee suggests that a significant increase in the flow of institutional credit to the small scale sector, and in particular, to the other industries under small scale would be possible only if immediate action is taken to impart necessary direction and confidence to Branch Managers for

strengthening the credit delivery system at the grass root level on the lines suggested above.

Monitoring Procedure

6.18 Supervision and monitoring of credit to VSI sector are of paramount importance in view of their (a) weak equity, (b) limited managerial and technical capabilities, and (c) inadequate marketing arrangements. In view of the above intrinsic weaknesses, they are unable to withstand adverse changes in the environmental conditions. Hence a proper and sympathetic follow-up of the end-use of funds and activity level of the unit is a must for successful working of the units.

6.19 With a shift in the concept of financing small-scale industries from a mere security oriented approach to need-based approach and viability of operations, emphasis in follow-up of credit has to be shifted from physical verification of inventory to the monitoring of performance of the unit and making suggestions for improving the performance.

6.20 With a view to monitoring the performance of the small-scale units and ensuring their continuous profitable working, the books of accounts of the borrowing units are to be periodically checked with emphasis on the following: (a) production level, (b) sales level, (c) profitability, and (d) inventory level.

6.21 Besides conducting physical verification of the inventory of the unit, the banks' operating staff should have a personal dialogue with the borrowers during the factory visits concerning various aspects of the functioning of the unit. Such a dialogue would enable the bank and the borrower to know the shortcomings, if any, in the functioning of the unit at the right time with a view to taking necessary remedial measures to make the unit healthier before the unit becomes a defaulter.

6.22 As far as the SFCs are concerned, IDBI has endeavoured to bring about their upgradation through inspections, evaluation studies, etc. It has been impressed on the SFCs to periodically review their internal system and procedures to cut down delay in disbursements. A Committee constituted for examining matters relating to financial institutions in the new 20-Point Economic Programme submitted its report to the Government and the Government of India has approved the recommendations of the Committee. The report has been sent to financial institutions in September, 1983 and their attention has been specially drawn to the summary and recommendations which relate to them and they have been advised to take appropriate steps for implementing the suggestions. Some of the recommendations specifically highlight the need for taking steps for assisting clusters of entrepreneurs, artisans in backward areas, increase in branch net-work to cover as many districts as possible in the State, to institute focal points of clearance/approvals by different State Governments, agencies etc. to small-scale projects and to reduce the queries to a minimum while processing applications.

6.23 Thus whereas several measures have been introduced in order to increase the flow of institutional credit to the VSI sector in the recent past and the recommendations of various Working Groups/Committees have also created an awareness of the key areas which need constant and continuous review/examination, yet the performance has not come up to expectations.

6.24 By and large, there has been a lack of sustained interest and direction from the top and lack of awareness about schemes by the operating officers at the grass-root levels. There is a serious problems of communication not to mention commitment to the cause of promotion of small industrial sector. The problem appears to be more of attitudes and co-ordination rather than of organisation. The Committee again draws attention to the preceding paragraph for early initiation of action.

CHAPTER VII

CREDIT REQUIREMENTS OF VILLAGE & SMALL INDUSTRIES REVIEW OF CREDIT FLOW—PRESENT STATUS

7.1 Precise data in respect of credit requirements of the Village and Small Industries (VSI) sector is not available. A survey conducted by the Reserve Bank of India has revealed that of all the units assisted by commercial banks upto June, 1976, about 69 per cent of the total credit flow was availed of by 11 per cent of the units in small scale sector which accounted for 55 per cent of production. Taking into account the units which do not have access to institutional finance the disproportionate supply of credit becomes more pronounced. Despite substantial increase of institutional credit from about Rs. 250 crores during 1973-74 to about Rs. 600 crores in 1979-80, the share of tiny units and village and cottage industries has remained nominal.

7.2 The outstanding credit of scheduled commercial banks shows that 72 per cent of credit is availed of by units with outstanding credit limits of over Rs. 1 lakh and upto Rs. 10 crores in the small scale industry sector. As against this, the share of the dispersed sector, inclusive of the tiny sector in small industries availing credit upto Rs. 1 lakh is only about 28 per cent as may be seen from Annexure-IX.

7.3 The institutional framework for credit to the village and small industries sector, the type of assistance provided by the financial institutions and special schemes operated for the village and small industries sector have already been outlined in Chapter IV. The operations of these organisations and the credit flow to the village and small industries sector have been reviewed in Chapter VI.

7.4 Keeping in view the production targets fixed for each sub-sector in the Sixth Five Year Plan and on the basis of the mid term appraisal of the Sixth Plan, credit requirement of each of the sub-sectors of the VSI has been broadly estimated as in the following paragraphs.

7.5 While it is too early to work out the exact credit requirements during the Seventh Plan of the sub-sectors of VSI group, broad estimates of credit requirements based on certain assumption about production are given in this Chapter.

Khadi & Village Industries

7.6 The programmes relating to Khadi and other village industries are implemented by the Khadi and Village Industries Commission (KVIC), the State Khadi & Village Industries Boards, registered societies, cooperative societies, gram/village panchayats, and units located in the villages. Besides Khadi, 25 village industries are under the purview of KVIC as may be seen in Annexure X.

7.7 Considering an annual growth rate of 15% for Khadi and 26% for village industries during the Sixth Plan period, it was envisaged that the value of output in this sub-sector would go up by about three times, employment would increase from 27.33 lakh persons to 50.50 lakh persons (15.40 lakhs under Khadi and 35.10 lakhs under village industries), and production of Khadi and Village Industries was expected to be around Rs. 200 crores and Rs. 1000 crores respectively. The targets included IRD component of Rs. 300 crores production and 10 lakhs employment. It had been estimated that to achieve these levels of production, Rs. 520 crores would be available from institutional sources, of which Rs. 320 crores would be under Khadi & Village Industries Commission Sector and Rs. 200 crores under the ISB component of IRDP. According to the mid-term appraisal of the Sixth Plan, production of Khadi and Village Industries is expected to reach a level of only Rs. 190 crores and Rs. 850 crores respectively. The year-wise break-up of institutional finance, during the Sixth Plan period, for Khadi and Village Industries was envisaged as given below:

(Rs. crores)

Year	Target for disburse-ment	Achiev-ment in terms of disburse-ment
1980-81	44	10.84
1981-82	69	25.83
1982-83	94	40.00
Total for 1980-83	207	76.67
1983-84	128	
1984-85	185	
	520	

7.8 Against the credit target of Rs. 207 crores for the first three years of the Sixth Plan, the actual amount of credit disbursed was about Rs. 77 crores only, showing a wide gap between the target and achievement. Even if a considerable pick up in IRDP coverage is visualised during 1983-84 and 1984-85, it would not be realistic to assume that a sum of Rs. 313 crores would be forthcoming during this period. Considering the capacity of the sub-sector for absorbing credit from institutions and banks and having regard

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to the credit availed of in the past, it would be reasonable to expect disbursements to be about Rs. 55 crores and Rs. 74 crores during 1983-84 and 1984-85 respectively. Thus, institutional credit likely to be availed of by the sub-sector during the Sixth Plan may be estimated at Rs. 205 crores against Rs. 520 crores originally envisaged, the achievement amounting only to 39.4% of the target. However, it may be noted that loans to IRDP are not included in the estimate. The achievement as related to KVIC component of Rs. 320 crores works out to 64 per cent.

Handlooms

7.9 Out of 30.21 lakh handlooms in the country, by March, 1980, 13.17 lakh handlooms had been brought under the cooperative fold. However, effective coverage was estimated at about 10 lakh handlooms. As per mid-term appraisal of the Sixth Plan, about 16.8 lakh weavers were estimated to have been brought within the cooperative fold and the number is likely to reach 19.75 lakh weavers by the end of Sixth Plan. Assuming a growth rate of 7.3 per cent per annum, the target of production was set at 4100 million metres for 1984-85 from the base year (1979-80) level of 2900 million metres. Production rose to 3300 million metres in 1982-83 and at the time of the mid-term appraisal, a production level of 3830 million metres was envisaged for 1984-85. However, during 1984-85 a production of 3700 million metres only is anticipated. Exports are expected to reach a level of Rs. 490 crores during 1984-85 against the target of Rs. 370 crores. The major trust of the programme under the plan has been on augmenting the supply of hank yarn and other inputs to weavers throughout the year at reasonable prices with a view to bringing 60% of the handlooms under effective cooperative coverage, increasing productivity through modernisation and renovation of looms, strengthening the technical systems for improving the quality and design of handloom products and reactivisation of dormant looms. It has been estimated by the Department of Textiles, Government of India, that NABARD may have to sanction credit limits to handloom cooperatives as under:

(Rs. crores)

Year	Limits		Total
	Primaries	Apex	
1982-83	120	78	198
1983-84	175	101	276
1984-85	225	127	352

7.10 Keeping in view the growth rate, effective coverage, movement of stocks, etc., the requirement of credit for production and marketing of handloom cloth is estimated to be around Rs. 350 crores by 1984-85.

7.11 For providing increased supply of hank yarn to handloom weavers, a scheme of setting up/expansion of weavers' cooperative spinning mills has been included in the Sixth Plan, with a provision of Rs. 32 crores. However, the progress of setting up of mills under the scheme is tardy and there is considerable time lag in sanctions and actual releases/utilisation of funds. In the first two years of the Sixth Plan, release of funds has been about Rs. 6.9 crores against a sanction of Rs. 29.33 crores and no new mill has yet gone on stream in the handloom weavers' cooperative sector. Implementation of the scheme would require to be monitored periodically to prevent time and cost overruns. The Sixth Plan provides that new spinning mills should be set up in yarn deficit areas having concentration of handlooms such as the North-Eastern Region.

Sericulture

7.12 The target fixed for the production of raw silk in 1984-85 was 90 lakh kgs. over the base year (1979-80) level of 48 lakh kgs. As per the mid-term appraisal, a significant shortfall was feared owing to drought conditions in the major mulberry/silk producing State of Karnataka and it was estimated that the production of raw silk would be around 70 lakh kgs. However, raw silk production is currently estimated at 67.54 lakh kgs. for 1984-85. Exports which were expected to go up from Rs. 49 crores to Rs. 100 crores in 1984-85 are now being placed at Rs. 110 crores. Increase in production is envisaged through extension of area, increase in productivity and expansion in areas under irrigated conditions. It is also proposed to develop non-mulberry sericulture (tasar, eri and muga) in potential areas. Keeping in view all these programmes, term credit needs of the sericulturists during 1984-85 may be put around Rs. 15 crores. In addition, working capital requirement during 1984-85 is estimated at Rs. 10 crores.

Handicrafts

7.13 During the Sixth Plan, the value of production of handicrafts is targeted to increase from Rs. 2,050 crores in 1979-80 to Rs. 3200 crores in 1984-85. Exports are expected to increase from Rs. 835 crores to Rs. 1315 crores and employment coverage from about 20.30 lakh persons to 28 lakh persons. According to the mid-term appraisal of the Sixth Plan, employment in 1982-83 is likely to be 25.05 lakh persons as against a target of 24 lakh persons for that year. While formulating the Sixth Plan, to sustain the production valued at Rs. 2050 crores in 1979-80, credit requirement was estimated at Rs. 700 crores. On this basis, to reach the targeted production level of Rs. 3200 crores by 1984-85, the credit requirement was estimated at Rs. 1280 crores. Since two-thirds of this amount would be for gems and jewellery for which necessary institutional support exists, credit needs of the other handicrafts could be placed at Rs. 430 crores. For export variety of carpets, exporters can avail of packing credit at a concessional rate of interest. Keeping in view these factors and the gaps in the infrastructure for delivery of credit, the demand for credit from this sub-sector during 1984-85 may be reasonably placed at Rs. 120 crores.

Coir Industry

7.14 The share of India in world production of coir and coir products is more than two-thirds. Kerala is the home of Indian coir industry accounting for 55 per cent of coconut production and over 85 per cent of coir products. The main thrust during the Sixth Plan is on revitalisation of existing coir units/cooperatives and expansion of activities in the non-traditional States. The mid term appraisal envisaged considerable shortfalls in targets set for coir. The production in 1984-85 was estimated at Rs. 97.65 crores as against the target of Rs. 122 crores. Exports were estimated at Rs. 35 crores as against the target of Rs. 50 crores for 1984-85. Institutional support to the tune of Rs. 25 crores is reckoned for the remaining period of the Sixth Plan.

Small Scale Industries

7.15 With a growth rate of 8.7% per annum assumed for the Sixth Plan, the production in the small scale sector is expected to be Rs. 32873 crores in 1984-85. Employment is expected to rise from 67 lakh persons in 1979-80 to 89 lakh persons in 1984-85. During the same period, exports are likely to go up from Rs. 1050 crores to Rs. 1850 crores. To sustain these levels of production, employment and exports, estimated requirements of working capital have been placed at Rs. 2810 crores and on the same basis, term loan requirement is likely to be of the order of Rs. 2750 crores during the Sixth Plan period. The estimated requirements during 1984-85 both for working capital and term loan are likely to be Rs. 1850 crores. As a result of several measures initiated for the growth of small scale industries, the targeted growth rate envisaged has been exceeded in the first three years of the Sixth Plan. Introduction of limited partnership, at present under consideration, could go a long way in ensuring increased flow of credit to this sub-sector.

Tiny Sector

7.16 One of the disquieting features of lendings to small scale industries is the poor performance towards tiny sector, viz. units with investment in plant and machinery upto Rs. 2 lakhs. In spite of overall increased flow of credit to the small scale sector, the share of tiny units has been insignificant. A survey of small scale industrial units assisted by commercial banks and other financial institutions (i.e. mostly modern small scale units) conducted by the Reserve Bank of India in 1977-78 has brought out certain revealing features of the pattern of financial assistance provided. Two tables, one showing the distribution of credit according to the form of organisation of the unit and the other according to the size of investment in plant and machinery of the unit are given in Annexure-XI (A & B). It has been observed from the data that proprietory and partnership units formed 68 and 28 per cent respectively of the total number of units financed by banks and enjoyed 18 and 51 per cent of institutional credit respectively. On the other hand, private limited companies formed only 3% of the total number of units and enjoyed 27 per cent of the institutional credit. The tiny units formed 94% of units included in the sample, accounted for 61 per cent of the value of output and 73% of employment but had availed themselves only of 48% of the institutional finance. Taking into account the units which could not have access to institutional credit, the disproportionate supply of credit becomes more pronounced.

7.17 To sum up, the credit needs of different sectors are as indicated below:

(Rs. crores)

Sub-sectors of Village & Small Industries	Value of output				Estimated credit requirements		
					6th Plan		
	1979-80	1980-81	1981-82	1982-83 anticipated	Original	Revised	1984-85
1. Traditional Rural Industry							
(a) Khadi	98	107	123	145	200	190	60
(b) Village industries	314	451	543	619	1000	850	14
2. Handloom*	1740	1860	1868	1980	2460	2298	350
3. Sericulture	131	143	169	183	245	221	25
4. Handicrafts	2050	2300	2800	2880	3200	3200	120
5. Coir	86	74	79	86	122	98	25
Total	4419	4935	5582	5893	7227	6857	594
6. Small Scale Industries	21635	23566	23920	27700	32873		2444

*Relate to handlooms in the cooperative sector only.

Credit Requirements for the Seventh Plan

7.18 Planning Commission has, for different sectors including Village and Small Industries sector, set up Working Groups/Subgroups for the formulation of developmental programmes for inclusion in the Seventh Five Year Plan. Future credit requirements will thus depend upon the growth envisaged as well as programmes and targets of production suggested by the Working Groups/Sub-groups. The proposals of the Working Groups/Sub-groups are tentative and a final view is to be taken in consultation with all concerned in due course.

7.19 Amongst the financial institutions which are the main sources of finance for the VSI sector; National Bank for Agriculture and Rural Development (NABARD) has an important role to play. Recognising the importance assigned to it, the NABARD in April, 1982, set up a Task Force consisting of experts of various types of rural industries, to study the problems faced by the units particularly in regard to institutional credit arrangements and to formulate guidelines for assistance for their activities. Accordingly, the NABARD constituted Task Forces on Khadi and Village Industries, Handlooms, Sericulture, Coir Industry and Small Scale Industries (mainly tiny). Reports of the Task Forces are now available, the question of credit requirements, inter alia, has been gone into and by adopting certain norms, the requirements have been worked out.

7.20 Keeping in view the suggestions/recommendations of the Working Groups/Sub-groups and Task Forces of NABARD, the future credit requirements of the Village and Small Industries sector have been worked out and given in the paragraphs below:

Khadi & Village Industries

7.21 Funds for Khadi and Village Industries flow from financial institutions for the following purposes:

(i) Khadi and village industries under the interest subsidy scheme for bank finance;

(ii) Industry part of the Industries, Services and Business(ISB) component of Integrated Rural Development Programme (IRD), and

(iii) Gobar Gas Scheme.

7.22 Under the Interest Subsidy Scheme, KVIC, State Khadi & Village Industries Boards, Registered Institutions and Cooperative Societies get finance from Commercial Banks at an effective rate of interest of 4% for Khadi and Village Industries since the difference between the actual rate of interest charged by banks and 4% is given as subsidy by the Government. The KVIC has classified the eligible institutions into major, medium and small sized units. Of these, major and medium sized units with production and sales turnover exceeding Rs. 75 lakhs and Rs. 15 lakhs per annum respectively have to obtain their credit requirements from financial institutions to the extent of 75% and 25% respectively. Small units with turnover upto Rs. 15 lakhs per annum are provided credit by the KVIC.

7.23 During the Sixth Plan, bank finance was projected at Rs. 520 crores consisting of (i) Rs. 230 crores (additional) for Khadi and Village Industries, (ii) Rs. 90 crores (additional) for gobar gas, and (iii) Rs. 200 crores for ISB component of IRD. However, the achievement has not been satisfactory as will be seen from the following table:

(Rs. crores)

Year	Target	Achievement	Shortfall
1980-81	44.00	10·84	33·16
1981-82	69.00	25.83	42.17
1982-83	94.00	40.00	54.00
1983-84 (expected)	128.00	84.00	44.00
1984-85 (expected)	185.00	112.00	74.00
Total	520.00	272.67	247.33 (47.6%)

It has been reported that the shortfall is owing to unsatisfactory flow of funds to the ISB Component of the IRD programmes.

7.24 Financial assistance to the KVI sector from Commercial Banks is available in the form of (i) advances to individuals under DRI scheme, (ii) advances to artisans and village and cottage industrial units under the Composite Loan Scheme, (iii) concessional finance for purchase and supply of inputs and/or marketing of output of the artisans and village and cottage industrial units under priority sector advances, (iv) term loans under the concessional finance scheme and (v) refinance facility to industrial societies/units outside the cooperative fold covered by 22 broad groups of industries (list at Annuxure-XII) which include most of the khadi and village industries, (a) at bank rate for production and marketing through primary cooperative societies, (b) to artisan members of Multi-purpose Cooperative Societies of Balutedars (block-level artisans) in Maharashtra, (c) to rural artisans (including weavers) engaged in any of the approved 22 broad groups of cottage and small scale industries through Primary Agricultural Credit Societies (PACS). Large-sized Multipurpose Societies (LAMPS) and Farmers Service Societies (FSS), (d) to individuals for industrial purposes, who are members of State/Central Cooperative Banks and are engaged in small scale industries covered by 22 broad groups of cottage and small scale industries, and (e) to service type of industries covered by the 22 broad groups of cottage and small scale industries.

7.25 The working capital requirements of industrial societies are assessed at 40% of the anticipated production (i.e. previous year's production plus an anticipated increase of 10%), provided the sales during the previous year were not less than 60% of the production. In case production is less than the stipulated

limit, the requirement is reduced proportionately. Other important conditions governing such refinance facilities are :

(i) ability of the borrower to provide the required margin as represented by the net disposable resources,

(ii) the borrower should undertake both production and marketing activities relating to the 22 broad groups of cottage and small scale industries,

(iii) the credit limit to the financing bank cannot be used to finance a society unless the borrowers' activities do not involve in addition to marketing any manufacturing or processing by itself or on its own account by its members;

(iv) the credit limits sanctioned by NABARD to the State Cooperative Bank are operative for the financial year and within that limit, it can be operated by drawing and repaying as often as necessary.

7.26 Since February, 1980, cooperative banks have been permitted to provide from their own resources long term loans to cottage and small scale industries for acquiring block capital such as plant and machinery, workshed etc. for a period not exceeding 10 years. The State and Central Cooperative Banks are also allowed to provide working capital or block capital to individuals engaged in cottage and small scale industries.

7.27 The credit flow to the KVI sector has shown an improvement, after the KVI sector activities were brought under the priority sector lendings in July, 1982 by commercial banks with the benefit of lower margins and lower rates of interest. In spite of this, the likely achievement is expected to be around Rs. 272.67 crores against the target of Rs. 520 crores, that is lower by about 48% in respect of the flow of funds from financial institutions to the KVI sector for the period 1980-85. It is hoped that over the years, as the institutions and banks concerned with khadi and village industries get familiar with the procedures, credit flow from financial institutions will improve. The Task Force report is under consideration by the NABARD, and once decisions are reached on the recommendations contained therein, matters are likely to show further improvement.

7.28 The Committee envisaged a compound growth rate of 23.5% per annum at 1983-84 prices and suggested that the flow of institutional finance for KVI activities may be increased by providing bank finance to aided institutions, individual artisans, small entrepreneurs as well as availing of bank finance for various activities like procuring and processing of raw materials, marketing, supplies to Government and exports. In this context, the Committee's suggestion that raw material banks should be entitled to have benefit of interest subsidy scheme is worth consideration.

7.29 The Committee has worked out credit requirements during the Seventh Plan period based on targets of production, sales etc. suggested by it keeping in view certain guidelines. The guidelines are:

(i) Production of KVI sector would increase at a compound growth rate of 23.5% per annum during the period 1984-85 to 1989-90 (18.1%) for khadi and 24.7% for village industries as against 31.5% for khadi and 20.5% for village industries during the Sixth Plan period).

(ii) While value of sales would be the same as value of production in case of khadi, in respect of village industries it would be 5% over the value of production;

(iii) Earnings in khadi would be 47% of value of production and that of village industries would be 23%, for KVI sector as a whole, it would be 27%;

(iv) Capital output ratio assumed for khadi is 2.5:1 and that for village industries 1:1; and

(v) Requirement of other grants have been calculated on the basis of utilisation in the past and projected requirements in future.

7.30 The production in the KVI sector is expected to increase from Rs. 1000 crores (provisional) in 1984-85 (base-level) to Rs. 2876.58 crores in 1989-90 (terminal year). The year-wise phasing of targets of production calculated by the Committee is given below:

(Rs. crores)

Industry	1984-85 (Provisional)	1985-86	1986-87	1987-88	1988-89	1989-90
Khadi	200·00	235·56	275·63	327·13	386·93	460·06
Village Industries	800·00	985·59	1214·95	1511·74	1901·04	2416·52
KVI	1000·00	1221·15	1490·58	1838·87	2287·97	2876·58

7.31 An outlay of Rs. 3189.60 crores has been projected for the whole of the Seventh Plan which includes an outlay of Rs. 1190.08 crores for the interest subsidy scheme, IRD and gobar gas taken together, of which

Rs. 906 crores is institutional finance. While entire outlay of Rs. 396 crores under interest subsidy has obviously to come from the financial institutions, for IRD and gobar gas taken together, the institutional finance required is projected at Rs. 510 crores. Year-wise phasing of the estimated credit requirements to the tune of Rs. 906 crores is given below:

Flow of Funds from Financial Institutions, 1985—90

(Rs. crores)

Item	1985-86	1986-87	1987-88	1988-89	1989-90	Total (1985-90)
1. Institutional finance under interest subsidy scheme.	59·00	69·00	79·00	89·00	100·00	396·00 (396·00)
2. Integrated Rural Development programme.	34·00	43·00	68·00	102·00	153·00	400·00 (603·00)
3. Gobar Gas Scheme . . .	17·00	20·00	23·00	24·00	26·00	110·00 (191·08)
TOTAL . . .	110·00	132·00	170·00	215·00	279·00	906·00 (1190·08)

(Figures in brackets relate to total outlay).

7.32 The targets suggested for the terminal year 1989-90 of the Seventh Plan seem to be ambitious when viewed against the performance during the Sixth Plan period. The credit requirements will depend upon the ability of the KVI sector to achieve the proposed targets of production as well as its capacity to absorb the projected levels of credit. Obviously, a view can be taken only after the Seventh Plan Working Group report is considered by all concerned and, among others, the targets and programmes of the KVI sector are finalised.

Handlooms

7.33 Under the RBI scheme the working capital requirements of handloom weavers' cooperative societies are met by the National Bank for Agriculture and Rural Development (NABARD) through refinance facilities provided to State Cooperative Banks for production and marketing activities. The norm of per loom scale of finance has been revised from 33 1/3 per cent to 40 per cent from 1982-83. The short term credit limits sanctioned by RBI/NABARD to Apex and Primary Weavers' Societies have gone up from about Rs. 51 crores in 1978-79 to Rs. 145 crores in 1982-83. The increase is largely attributable to revision of the norm. There is considerable shortfall because achievement of Rs. 145 crores has been against the target of Rs. 200 crores set for 1982-83.

7.34 Assuming a compound growth rate of about 5% during the Seventh Plan, the Committee has estimated the production for 1984-85 and the period 1985-86 to 1989-90 as given below:

Year	Target (in million metres)
1	2
1984-85	3700
1985-86	3870
1986-87	4050
1987-88	4220
1988-89	4400
1989-90	4690

7.35 The production target for 1989-90 has been further split up between the different sectors in the handloom industry as follows:

	No. of looms (in lakhs)	Production (in million metres)
1. Looms under Cooperatives at 5.5 metres per loom per day for 300 working days in a year . . .	15.37	2536.05
2. Looms under State Handloom Development Corporations (HDCs) and special projects at 5.5 metres per loom per day for 300 working days in a year	3.06	504.90
3. Looms in the residuary sector at 4.5 metres per day per loom for 300 working days in a year	12.22	1649.70
TOTAL	30.65	4690.65

7.36 Accordingly, for a target of about 2500 million metres of production in the Cooperative sector in 1989-90, assuming a rate of Rs. 6/- per metre of cloth, the value of production by the Cooperatives would work out to Rs. 1500 crores and at 40% of the value of production, the credit requirement would be Rs. 600 crores in 1989-90. The Committee has worked out year-wise targets of production of handloom cloth and its estimated value as also the credit requirements based thereon. According to these estimates, during the 7th Plan, the production is expected to be 9850

million metres whose value would be Rs. 5910 crores and credit requirements for this level of production at 40% of the value would be Rs. 2364 crores. It has also been suggested that at least 50% of the cloth produced by the primary societies should be marketed through Apex Marketing Societies who would need Rs. 1182 crores of credit for the purpose. For the residuary sector (i.e. outside the cooperative fold and HDCs), the Committee has set the target at about 1650 million metres for the year 1989-90. Assuming a rate of Rs. 6/- per metre of cloth, its value of production for the year in the residuary sector would work out to be Rs. 990 crores and the credit requirements for this value of production at 40% would be Rs. 396 crores.

7.37 A target of modernising 1.20 lakh looms during the 7th Plan period has been envisaged. The average unit cost of modernisation has been indicated as Rs. 5000 of which 1/3 will be subsidy and 2/3 will be loan from financial institutions. The Task Force set up by the NABARD on Handlooms has recommended a new line of credit for modernisation. The requirement of credit for modernisation at the rate of 2/3 of Rs. 5000 i.e. Rs. 3334 per loom for 24000 looms per year as proposed works out to Rs. 8 crores and for the Seventh Plan period an amount of Rs. 40 crores would be required to modernise 1.20 lakh looms. The Task Force has also recommended refinance facility through banks, to meet the working capital requirement of Apex/Regional Societies and Handloom Development Corporations for establishment/renovation of show-rooms for marketing of the products of the member societies for which institutional credit facility does not exist at present. The Committee has estimated the credit requirement to be of the order of Rs. 115 crores for the establishment of 250 new emporia and renovation/modernisation of 100 emporia per year, during the 7th Plan period.

7.38 The coverage of looms by Handloom Development Corporations is expected to go up from the present level of about 1.5 lakh looms to 3 lakh looms and production by these looms is estimated at 500 million metres of cloth in the terminal year 1989-90 of the 7th Plan for which working capital requirement would be Rs. 120 crores. According to the year-wise targets of production for the HDCs during the 7th Plan period worked out by the Committee, the production during the 7th Plan is likely to be 1670 million metres and Rs. 1002 crores in value. The credit requirement for this purpose has been placed at Rs. 401 crores during 1985-90. At present, the Handloom Development Corporations are getting credit facility from Commercial Banks mainly for marketing of finished cloth and partly for storing of raw materials like yarn. During 1982-83, credit sanctioned for the purpose aggregated only to Rs. 11.90 crores. The Task Force of NABARD on Handlooms has recommended that State Handloom Development Corporations should be treated on lines similar to Apex Societies with regard to meeting their working capital requirements for production and marketing. The RBI has been of the view that Handloom Development Corporations are eligible to obtain credit from the commercial banks under the priority sector schemes. A working Group of Ministry of Commerce has estimated a credit gap between the present level of finance available to the Handloom Development Corporations from the Commercial banks and projected requirements during the 7th Plan period. The working group has recommended that arrangements be made to fill up this gap through Apex Cooperative Banks with refinance facility from NABARD, if necessary. Furthermore a working group set up by the RBI is also looking into this matter.

7.39 The working capital requirements of the cooperative Spinning Mills as met by the Cooperative Banks and Commercial Banks are around 18% per annum. The production cost of hank yarn used by the handlooms sector is more compared to the yarn in the form of cones. In view of this, the Task Force has observed that there is a case for providing refinance facility for working capital where at least 75% of output of cooperative Spinning Mills is in hank form. The Task Force has recommended, as suggested by the Hate Study Group earlier, that as in the case of Cooperative Sugar Mills, the Cooperative Spinning Mills organised by Handloom Weavers/Handloom Weaver Societies should get their working capital requirement at 16.5% per annum and RBI accordingly open a line of credit for them. According to the Task Force, working capital requirement of a Cooperative Spinning Mill, on an average is Rs. 1 crore. The number of handloom weavers' Cooperative Spinning Mills producing hank yarn to the extent of 75% of their production was around 20 out of the 30 cooperative mills of this category, as on 30-6-82. The number would increase further to 25 and 30 during 1984-85 and 1985-86 respectively as indicated by the Task Force. This estimate assumes that over the figure of 25 mills in 1984-85, the number of mills will keep on increasing at the rate of 5 mills each year over the number of mills in the previous year.

7.40 Keeping in view the recommendations made by the Task Force set up by the NABARD for Handlooms and suggestions made as also credit requirements estimates based thereon by the Committee, the credit requirements for Handlooms sector during the Seventh Plan may be as indicated in the table given below: --

Item	(Rs. crores)
1. Production and marketing credit required by handloom weavers societies.	2364
2. Marketing Credit required by Apex Marketing Societies	1182
3. Modernisation of looms	40
4. Working Capital requirement of Apex/Regional Societies and Handloom Development Corporations for Establishment/renovation of show rooms	115
5. Production and marketing credit required for looms covered by Handloom Development Corporations	401
6. Working Capital requirements of cooperative spinning Mills	200
7. Production and Marketing Credit required for looms covered by the residuary sector (outside cooperative fold and HDCs)—for 1989-90 only.	396

Sericulture

7.41 At present, finance is provided by the Commercial Banks, Regional Rural Banks (RRBs), Apex Cooperative Banks and District Central Cooperative Banks (DCCBs). The Commercial Banks and RRBs finance sericulturists directly or through sericulturist societies or Primary Agricultural Credit Societies (PACS) ceded to them. Main activities for which finance is required include development of land, cost of mulberry plantation, sinking of wells, provision of pump sets, construction of rearing house and reeling shed, purchase of reeling equipments etc. Share and working capital is also required by the Government marketing agencies and/or Cooperatives marketing sericulture products.

7.42 During the Sixth Plan, area under mulberry is expected to go up rainfed from 0.96 lakh hectares in 1979-80 to 1.06 lakh hectares in 1984-85 and irrigated from 0.59 lakh hectares to 1.43 lakh hectares in the same period, both taken together, from 1.55 lakh hectares to 2.49 lakh hectares. Task Force has assessed the credit requirements for mulberry development on the following parameters:

Term Loan—for development :

Item	(Rupees)
1. Per hectare of rainfed area . . .	12,500
2. Per hectare of irrigated area credit required from institutional sources—for 50% of the area .	25,000

Short-term Credit—for maintenance :

Item	Rainfed	Irrigated
1. Requirement per hectare per year (Rs.)	3,000	7,500
2. No. of Crops per year . .	4	5
3. Requirement per crop @ 1½ times the credit per crop (Rs.) .	1,125	2,250

7.43 Parameters assumed by the Task Force for other activities for which credit is required are given below:

Sl. No.	Nature of activity	Minimum & Maximum
	Term Loans	
1.	Construction of wells & installation of pump sets. . . .	Rs. 15,000 to Rs. 22,000
2.	Deepening of wells . . .	Rs. 3,000 to Rs. 4,000
3.	Silkworm rearing equipments per acre	Rs. 2,000 to Rs. 2,500
	Assam	Rs. 4,000
4.	Construction of rearing house (model for 1 acre) . . .	Rs. 4,500 to Rs. 10,000
	Short-term Loans	
5.	Cost of cultivation & Silkworm rearing charges for 5 or 6 crops of irrigated garden per year . .	Rs. 3,000 to Rs. 3,600 (@ Rs. 600 per crop)
6.	Rainfed/acre for 4 crops . .	Rs. 1,600 (@ Rs. 400 per crop)
	Non-Mulberry Silk	
7.	Cost of rearing per rearer per year.	Rs. 500
	Processing activity (Term-loan)	
8.	Reeling ; Loan for purchase of	
	(i) Charkhas . . .	Rs. 1500
	(ii) 5 unit Amber charkhas .	Rs. 64,575
	(iii) Cottage Basin Unit . .	Rs. 34,850
9.	Financial Assistance to Reelers' Cooperative Societies for installation of Hot Air Driers . .	Rs. 1,00,000
10.	*Twisting*	
	Cost of Twisting Machines :	
	(i) 360 Spindle unit. . .	Rs. 1.57 lakhs
	(ii) 1200 Spindle unit . .	Rs. 1.80 lakhs
11.	Loan requirement for seed production unit (for the Department personnel and required personnel only)	Rs. 8,500 per unit

7.44 On the basis of the above parameters, credit requirements worked out by the Task Force for 1983-84 and 1984-85 are as given below:

(Rs. lakhs

Year	Mulberry Sector	Non-Mulberry Sector	Processing	Total
1983-84 . .	1387.68	32.61	429.50	1849.79
1984-85 . .	1978.81	50.83	433.02	2462.66

7.45 The Committee has accepted the parametres assumed by the Task Force and used the same for estimating the credit requirements during the Seventh Plan. It has been suggested that the area under mulberry may be increased by one lakh hectares out of which 20,000 hectares will be irrigated and 80,000 hectares will be rainfed. For this additional area of one lakh hectares to be brought under mulberry and for maintenance of the entire 3 lakh hectares under mulberry (1.20 lakh irrigated and 1.80 lakh rainfed) the credit requirements would be as detailed below:

I. Cost of Plantation (Term Loan)

1. Irrigated 20,000 hectares @ Rs. 25000 per hectare . . .	Rs. 50.00 crores
2. Rainfed 80,000 hectares @ Rs. 12,500 per hectare . . .	Rs. 100.00 crores
TOTAL	Rs. 150.00 crores

II. Maintenance Cost for the entire Plantation (Short-term credit)

1. Irrigated 1,20,000 hectares @ Rs. 7,500 per hectare . .	Rs. 90.00 crores
2. Rainfed 1,80,000 hectares @ Rs. 3000 per hectare . .	Rs. 54.00 crores
Total	Rs. 144.00 crores
Grand Total . . .	Rs. 294.00 crores

7.46 It has been assumed that requirement of non-mulberry sector and processing would be 25% of that of the mulberry sector which would be Rs. 73.50 crores or say Rs. 74.00 crores. Thus during the Seventh Plan period, overall requirement works out to Rs. 368 crores if the entire amount is to come from financial institutions. Since sericulture is with small farmers dispersed all over it would not be easy to be reached by the banks as they follow an area approach. It could be reasonably assumed that around 1/3rd of the estimated credit requirement would be met by the financial institutions. The Committee has also suggested creation of necessary infrastructure like establishment of (i) grainages in private sector (ii) chawkie rearing centres under private/cooperative fold, (iii) cottage basin units, (iv) charkhas and (v) conversion of charkha units into cottage basins etc. For this purpose, the Committee has estimated the credit requirements at Rs. 80 crores. In this case also, only 1/3rd or say Rs. 25 crores may be taken becoming available from financial institutions. Hence, during the Seventh Plan period, total credit required for sericulture may be placed at Rs. 150 crores.

Coir

7.47 Financing of industrial cooperatives is the legitimate business of the cooperative banking structure and coir is one of the 22 broad groups of approved cottage and small scale industries for financial assistance at concessional rate of interest. NABARD provides refinance facilities for the production and sale of primary cooperative societies. The accommodation is in the nature of reimbursement finance within the sanctioned limit for the financial year. The Task Force on Coir has worked out norms for assessing working capital requirements for acquiring retted husk, production of yarn, wages payable, cost of dyes, chemicals etc. The credit limits fixed by NABARD are as follows:

(i) 75% of the value of anticipated requirement of retted husk plus 1/3rd of the value of the anticipated yarn production;

(ii) in the case of mats and mattings the limit is at the rate of 1/3rd of the value of anticipated production;

(iii) the anticipated production of yarn as well as mats and mattings is arrived at by adding 20% to the value of production during the previous year. The limit upto 33 1/3% of the anticipated value is allowed only if sales during the previous year were 60% of the total production; and

(iv) a higher limit is provided in cases where the loan application is accompanied by any concrete and acceptable programme of a society and satisfactory arrangements are made by the Central Cooperative Bank and the Government for proper execution and supervision of the production programme.

7.48 Apart from the above, credit is required for procurement and marketing of coir yarn and coir products by the Apex Coir Cooperative Marketing Society which acts as a federal organisation of primary coir cooperative societies. The limit provided for the purpose is 40% of the anticipated sales (this is assumed to be 20% over the previous year's sale) of Apex Societies during the year.

7.49 Refinance facility is available to the State Cooperative Banks on behalf of Central Cooperative Banks for advances made by them to Primary Agriculture Credit Societies (PACS). Large-sized Multipurpose Societies (LAMPS) and Farmers' Service Societies (FSS) for working capital requirements of coir artisans in rural areas not served by any coir cooperatives.

7.50 Coperative banks provide long term finance to cottage and small scale industries, particularly Cooperative processing societies for acquiring block assets like work shed/machinery/equipments besides State Governments, SFCs, IDBI and NCDC. While State Governments and NCDC assist cooperatives, SFCs and IDBI finance units in the private sector.

7.51 On the basis of targets of production of coir sector for the Sixth Five Year Plan, the Task Force has estimated credit requirements for the last three years of the plan period. It has been assumed that 10% of the funds required will be contributed by the beneficiaries. Accordingly, actual credit required is as follows:

(Rs. crores)

1982-83	1983-84	1984-85	Total (1982-85)
40.00	54.00	63.00	157.00

7.52 In addition to the working capital required as above, term credit to the tune of Rs. 3.45 crores has been estimated for rubberised coir units and defibering units in coir producing states and for one Needle-felt unit to be set up in one of these states. However, in the coir industry there has been a crisis during the last 2 years and production has declined considerably. Keeping this in view, the working group on coir had suggested a production level of 1.776 lakh tonnes for 1984-85 (1.403 and 0.373 lakh tonnes of white and brown fibre respectively) as against the target of 2.35 lakh tonnes (1.90 lakh of white fibre and 0.45 lakh of brown fibre) for the industry when the Sixth Plan was finalised. Obviously, the estimates of the Task Force would be unrealistic. The Committee has taken the revised target of 1.776 lakh tonnes for 1984-85 as base and projected year-wise targets for the Seventh Plan

period 1985-90. Taking into account these targets, credit requirements have been worked out, applying the norms and methodology adopted by the Task Force in this regard. The credit requirements for 1984-85 and 1989-90 work out around Rs. 48 crores and Rs. 74 crores respectively. Overall requirements for the plan period, 1985-90 work out to about Rs. 308.20 crores. If the term credit need of Rs. 3.45 crores estimated by the Task Force is added to it, the credit requirements of the coir industry during the Seventh Plan would be Rs. 311.65 crores.

7.53 The institutional cooperative credit needs calculated by the Committee are indicated in the following table:

(Rs. Crores)

	1985-86	1986-87	1987-88	1988-89	1989-90	1985-90 Total
Total credit needs . . .	81·87	88·22	93·30	98·43	105·22	467·04
Of which Institutional Credit . .	49·12	52·93	55·98	59·06	63·07	280·16
Of which Cooperative Credit . .	16·37 (20%)	24·87 (39%)	33·96 (40%)	45·95 (45%)	52·66 (50%)	173·81

Small Scale Industries

7.54 The Working Group set up for the formulation of development schemes/programmes for the 7th Plan for the Small Scale Industries (SSI) has estimated credit requirements. The institutional credit is available to S.S.I. from Commercial Banks, Cooperative Banks, Regional Rural Banks (RRBS) and State Financial Corporations (SFCs). At the Apex level, the two institutions are the Industrial Development Bank of India (IDBI) and National Bank for Agriculture and Rural Development (NABARD). While the SFCs largely provide term finance (except in case of composite loans), the others provide both working capital and term loans to SSI.

7.55 Over the years, there has been a considerable increase in the flow of credit to the SSI Sector. The percentage of outstanding credit to value of production in SSI increased from 11.0% as at the end of December 1974 to 13.7% as at the end of December 1978. It declined thereafter and stood at 12.7% at the end of December 1982. Similarly, the outstanding credit to small scale industries has increased from Rs. 211 crores constituting 6.9% of total bank credit as at the end of March 1968 to Rs. 4433 crores as at the end of December 1982 constituting 13.0% of the total bank credit. Of the total priority sector loans and advances by the banks, 37.7% was accounted for by the SSI. Refinance provided by the IDBI to SSI also recorded a significant increase from Rs. 101 crores in 1978-79 to Rs. 301 crores in 1982-83.

7.56 The growth of production during the Sixth Plan is expected to be around the annual compound growth rate of the 8.7%. The value of production for the terminal year of the Sixth Plan (1984-85) has been estimated at Rs. 45593 crores (at current prices) by taking into account an increase of 5 per cent in the wholesale price index of manufactures and given the value of production of SSI for 1982-83 as Rs. 35000 crores (at current prices). Projections of the value of production and the credit requirements of the SSI have been made taking 1984-85 as the base year and estimates for 1985-90 have been worked out at constant prices of 1982-83. Looking to the potential of this sector, the Working Group for the Seventh Five year Plan has estimated a growth rate of 10 percent notwithstanding that the prices will not remain constant and there is a possibility of double digit inflation. Based on the projected growth at the compound rate of 10% production during the Seventh Plan period (based on 1982-83 prices) will go up from Rs. 39.000 crores in 1984-85 to Rs. 62.810 crores by 1989-90. Year-wise breakup of production is as follows:

(Rs. crores)

	1982-83 (prices)
1985-86	42,900
1986-87	47,190
1987-88	51,909
1988-89	57,100
1989-90	62,810

7.57 To estimate the requirements of working capital and term loans, following assumptions have been made;

(i) 1/5 of the gross production would constitute value added component;

(ii) the incremental capital output ratio would be about 2:1;

(iii) total fixed capital required would include an additional 15% as pre-operative expenses and margin money for working capital; and

(iv) the plausible value for debt-equity ratio would be 2.5:1

7.58 While considering the above, it has to be kept in mind that the present data base for the small scale sector is extremely weak. The fixed capital estimates derived on the basis of these estimates do not include pre-operative expenses and margin money for working capital. The following tables give estimates of

value added, fixed capital requirements and incremental fixed capital requirements:—

Value added in SSI Sector (1/5 of gross production)

(Rs. in crores)

Year	Value
1985-86	10 030
1986-87	11,934
1987-88	12,137
1988-89	13,351
1989-90	14,686

Fixed Capital Requirements

(Rs. Crores)

Year	Annual increase	Estimated Capital requirements
1984-85	..	18,238
1985-86	1,824	20,062
1986-87	2,006	22,068
1987-88	2,207	24,275
1988-89	2,428	26,703
1989-90	2,670	29,373

Incremental Fixed Capital Requirements (including additional 15% as pre-operative expenses)

(Rs. crores)

Year	Estimated requirements
1985-86	2098
1986-87	2307
1987-88	2538
1988-89	2792
1989-90	3071
TOTAL	12806

7.59 The term credit from the financial institutions to the S.S.I. sector with the debt-equity ratio as 2.5:1 works out as under:—

Term loans Required

(Rs. crores)

Year	Estimated Requirements
1985-86	1499
1986-87	1648
1987-88	1813
1988-89	1994
1989-90	2194
	9148

7.60 If we further assume that 20% of the total equity requirements of the SSI sector have to be provided by the financial institutions as equity assistance, the assistance to be provided by the financial institutions for this purpose is estimated to be:—

Equity Assistance by Financial Institutions

(Rs. crores)

Year	Estimated Requirements
1985-86	120
1986-87	132
1987-88	145
1988-89	160
1989-90	175
Total	732

7.61 Requirements of working capital can be estimated on the assumption that it would be of the order of 25% of the gross value of production in any given year, reckoning a production cycle of 4 times a year. On the assumption that 2/3rds of the total working capital required would come for the small scale sector from the banks, the incremental working capital required would be:—

Incremental Working Capital Required

(Rs. crores)

Year	Estimated Requirements
1985-86	760
1986-87	836
1987-88	919
1988-89	1011
1989-90	1113
Total	4639

7.62 Thus, the total projected incremental credit requirements of the SSI Sector by way of term loans working capital and equity assistance can be summarised as indicated below:

Credit Requirements of SSI Sector (1985-90)

(Rs. crores)

Term loans	
Debt Equity Ratio 2.5:1	9148
Equity Assistance Debt Equity Ratio 2.5:1	732
Incremental Working Capital (Bank funded)	4631
Total	14511

7.63 In addition, it is desirable to make a separate provision to the extent of Rs. 50 crores for strengthening the activities of support agencies, particularly in respect of raw materials supply and marketing assistance. The projected credit requirements of the Small Scale Sector imply a significant step up in the credit flow as compared to the trends observed in the recent past. The estimates should be taken as indicative as they are based on various assumptions which are subject to change. In order to achieve the increased flow of institutional finance, a variety of measures would be needed.

7.64 Based on the estimates in the tables in the preceding paragraphs the total credit requirements of SSI Sector would come to Rs. 14561 crores.

Handicrafts

7.65 The Task Force on Handicrafts constituted by the NABARD to examine the credit needs of the handicrafts sector estimated investment in this sector to be roughly 50% of the value of the production and assumed the average ratio between fixed and working capital at 1:5. The Task Force estimated investment in the handicrafts sector around Rs. 1600 crores by 1983-84. No data is available to indicate the quantum of credit flow to the handicrafts sector exclusively but the Task Force estimated it to range between Rs. 75-100 crores. The Task Force expected that of the total investment of Rs. 1600 crores, at least 20% should come from commercial banks as financial support to the handicrafts sector. Keeping in view, the requirement of the handicrafts sector the credit requirements of handicrafts sector through banking channels by 1983-84 were moderately placed by the Task Force at Rs. 300 crores—Rs. 40 crores for fixed capital and Rs. 260 crores for working capital.

7.66 The Working Group on Handicrafts constituted by the Planning Commission for formulation of the 7th Five Year Plan has envisaged the following targets for exports, production and employment in respect of handicrafts during 1985-90.

Year Projections	1984-85 (base)	1985-86	1986-87	1987-88	1988-89	1989-90
1. Exports (Rs. in crores)	1760	1896	2050	2216	2396	2591
(a) Gems and Jewellery	1345	1460	1592	1735	1891	2061
(b) Other handicrafts	415	436	458	481	505	530
2. Production (Rs. crores)	3500	3815	4160	4535	4945	5400
3. Employment (lakh persons)	27·40	28·90	30·50	32·20	33·95	35·80

7.67 For development of handicrafts, the Working Group has envisaged programmes which include training, design and technical development, marketing, common facility centres and raw materials depots, strengthening of cooperatives, etc. Keeping in view the targets of exports, production and employment as also the programmes envisaged during the 7th Plan (1985-90), the Working Group has estimated investment and requirement of institutional credit for the handicrafts sector during the 7th Plan as under:—

(Rs. crores)

Year Projections	1984-85 (base)	1985-86	1986-87	1987-88	1988-89	1989-90
1. Estimated capital investment	1400	1525	1665	1815	1980	2160
2. Less of land & Building	880	960	1050	1140	1240	1350
(a) Fixed capital assets other than land & building	150	160	176	190	206	224
(b) Working capital	730	800	874	950	1034	1126
3 Requirement of institutional finance:						
(a) Fixed capital	75	80	88	95	103	112
(b) Working capital	240	264	288	315	344	375
Total	315	344	376	410	447	487

CHAPTER VIII

SYSTEMS AND PROCEDURES FOLLOWED BY BANKS AND FINANCIAL INSTITUTIONS IN LENDING TO VSI SECTOR

8.1 A High Powered Committee (Puri Committee) appointed by the Government of India, submitted a report in 1977 regarding various problems particularly relating to systems and procedures and other related problems of bank credit to small-scale industries. The major recommendations of the Committee were accepted by the government. Reserve Bank of India issued suitable instructions during 1978 regarding the implementation of recommendations of this Committee.

8.2 The Puri Committee had prescribed simplified application forms for different categories of small-scale borrowers. For loans below Rs. 25,000 a combined application-cum-interview-cum-appraisal form has been prescribed. For loans above Rs. 25,000 and upto Rs. 2 lakhs the Committee has prescribed separate application forms and interview-cum-appraisal forms. The Committee has also prescribed renewal forms for loans above Rs. 25,000 and upto Rs. 2 lakhs. The Committee had stressed the need for standardisation of application and appraisal forms by all banks.

8.3 The Committee suggested that RBI and IDBI should ensure adoption of these application forms by all banks/State Financial Corporations (SFCs)/State Industrial Development Corporation (SIDCs) in the light of recommendations made in paragraph 8.6 below.

8.4 It has been highlighted during discussion by the Committee that various agencies/SSI associations have asked for making available these application forms, apart from Hindi, in regional languages also. The Committee recommends that these application forms should be made available in regional languages also. Adequate stocks of such forms should be available with all branches of banks/SFCs/SIDCs.

8.5 By and large the feed back received by the Committee has been that these forms are quite simple and no modifications are called for in them. To facilitate filling up of these forms by the borrowers suitable support should be provided by DICs/banks/SFCs/SIDCs. The Committee recommends that the concerned organisations should arrange for provision of such support required by entrepreneurs.

8.6 The format for loans above Rs. 25,000 and upto Rs. 2 lakhs suggested by the Puri Committee, is being used by the State Bank of India for loans upto Rs. 5 lakhs. The Committee sees the distinct advantage of using the form upto Rs. 5 lakhs so as to cover most of the tiny sector units through these simplified application forms and interviews-cum-appraisal forms. The Committee appreciated the efforts of State Bank of India and desired that other nationalised banks may also follow the same form.

8.7 In so far as the application forms of the SFCs/SIDCs are concerned, it is observed that they are not as simplified as the forms being used by the banks. In fact the application forms for loan assistance exceeding Rs. 2 lakhs and below Rs. 5 lakhs from a SFC run into number of pages and similarly for application forms for larger loan amounts. The Committee suggests that IDBI should look into this aspect and suggest simplified forms for adoption of SFCs and SIDCs.

8.8 For the sake of uniformity, the Committee suggests that the format suggested by the Puri Committee should be brought into use by KVIC, DICs, TCOs and other promotional agencies. The Committee has noted that wherever DICs have acquainted themselves with the forms in use by the banks and financial institutions for different categories of borrowers not only hardship of the borrowers has been mitigated but even the rejection of the applications by the banks has been lower.

8.9 The Committee is of the view that with standardisation of application forms, uniformity in their implementation, and use of these forms by promotional agencies, the problems of piece-meal queries by banks and to large extent the ensuing delays, would be reduced. The Committee further suggests that applications submitted by borrowers to banks or sponsored by DICs, KVIC and other agencies should be suitably considered by the bank branches. There should be monthly review to consider pending applications, if any and to initiate appropriate action to dispose them. It further suggests that the process of rejection of applications should be suitably monitored for a bank as a whole for appropriate control, review and guidance.

8.10 The norms regarding the period in which loan applications have to be sanctioned by the banks have already been laid down by RBI. The Committee was informed that banks are required to dispose of applications for credit limits upto Rs. 25,000 within 4 weeks. Loan applications beyond Rs. 25,000 and upto Rs. 2 lakhs are required to be sanctioned within 8-9 weeks from the date of receipt of such applications. In view of the Committee's suggestions made in paragraph 8.6 above, these norms should apply for borrowers upto Rs. 5 lakhs, and further, the norms

should be regarded as outer limits. The Committee feels that where the bank managers are better equipped to deal with loan applications, loans should continue to be sanctioned expeditiously and generally earlier than the period stipulated above.

8.11 To assist in expeditious disposal of applications by banks the Committee is of the view that bunching of applications should be avoided and flow of applications should be evenly spread throughout the year rather than concentrating in the month of March when applications in bulk are sponsored by the promotional agencies.

8.12 The Committee recommends that suitable Cells should be set up by banks to deal with lending to artisans, village, tiny and small-scale industries. This would serve as contact points for borrowers and assist in speedy sharing of information and dispensation of credit. Where necessary suitable staff/technical support should also be provided to cope with the increasing work load connected with flow of credit to VSI sector.

8.13 Feed-back received by the Committee revealed that bankers are still insisting on collateral security or third party guarantee in case of small loans upto Rs. 25,000. The Committee noted that despite issue of specific guidelines to the banks by the Reserve Bank of India there is an urgent need to create awareness both among bank staff as well as borrowers including prospective borrowers for delinking the proposal from the collateral/third party guarantee and sanction loans based only on the viability of the project. Only the assets created out of the bank loans should form security for advances. Each bank should ensure that the guidelines issued in this regard by RBI are implemented in the true spirit at the grass root level. RBI should also monitor that their guidelines/directives are in fact followed by the banks/other agencies.

8.14 Regarding margins for working capital, the Committee's suggestions are:

(a) the prescribed margins should be printed on the reverse of the application forms;

(b) for credit limits upto Rs. 25,000, no margin need be prescribed;

(c) for credit limits over Rs. 25,000, margin should not normally exceed 20%;

(d) where margin money/assistance/subsidy is available from the Government or any other financial/promotional agency and is not less 20% of the loan amount, it should serve as a margin and no further margin money should be asked for;

(e) there should be no insistence on full margin to be brought in at the beginning of the loan operation. Permission should be accorded to bring margin in stages; and

(f) where under the existing special schemes like that of entrepreneurs, low/no margins are charged, the benefit should be allowed to continue.

8.15 Regarding term loans, the promoters' contribution/margin has been prescribed keeping in view the location, type of entrepreneur, etc. The Committee suggests that the norms prescribed by IDBI for term loans should also be followed by banks.

8.16 The Committee is of the view that since complaints are received from users, there should be a machinery at regional/zonal/central office of all banks to entertain complaints from borrowers in the matter of guidelines/instructions/norms not being followed. Further, there should be a machinery to verify that guidelines/instructions/norms are implemented by branches in actual practice.

8.17 The present practice of charging penal rate of interest by banks works to the disadvantage of small units. The Committee recommends that the practice of charging penal rate of interest for small industries may be dispensed with particularly for smaller among the small units.

8.18 Another problem faced by small-scale industries relates to delay in payment of bills to the small scale units by large and medium scale units. RBI has examined this aspect and issued guidelines to banks with a view to resolving this problem. The Committee is of the view that RBI should take steps to have the guidelines monitored and implemented by the banks.

8.19 Besides the foregoing suggestions, Reserve Bank of India should re-examine the need for 'discount houses' and 'factoring' to take care of the problem of delayed payment by larger units to small scale/ancillary units. Further, IDBI should also examine the feasibility of devising a suitable 'Discounting Scheme' for such bills whose payment is delayed by larger units.

8.20 The Committee has also examined the current practice of credit appraisal by banks and financial institutions regarding working capital loans and term loans to small industries. In the light of the recommendations made by the Puri Committee, the appraisal procedure for small loans has been streamlined considerably. The credit appraisal procedures in respect of small scale units whose total working capital requirements exceed Rs. 10 lakhs are examined in the light of RBI guidelines issued to the banks following the recommendations of the Tandon Committee and the Chore Committee. The small-scale entrepreneurs have to face problems on this score which adversely affect the fortunes of SSI units. Their submission is that the entire SSI sector may be exempted from these schemes. The Committee is of the view that RBI may re-examine this issue in detail on merits.

8.21 So far as the post sanction stage of loan proposals is concerned, two important procedures are documentation and disbursement. The Committee

has examined the documentation procedure followed by the banks and the financial institutions. The Committee is of the view that the documentation procedure has been standardised so far as it relates to Composite Loan Scheme. As regards other loans, particularly those relating to VSI sector the need for uniform practice and standard documentation procedure is stressed. In this context, it may be mentioned that the documentation procedure adopted by SBI has been found effective and RBI should examine the feasibility of advising othe banks to follow the documentation procedure of SBI to ensure uniformity for the VSI sector.

8.22 The financial institutions have taken a variety of measures to streamline the procedure so that the time lag between sanction and disbursement is reduced to a minimum. IDBI has been advising SFCs of various procedures to be adopted for expediting disbursement. To ensure timely implementation of projects, pending completion of documents and creation of security, IDBI has recently formulated a scheme of refinance assistance against bridging loans sanctioned by SFCs. The Committee suggests that this facility should be popularised and full benefits taken thereunder by the SFCs.

8.23 The Credit Guarantee Scheme of the Government of India administered by Deposit Insurance & Credit Guarantee Corporation of India (DICGCI), a wholly owned subsidiary of RBI has also been examined by the Committee. Certain anomalies have been noticed in the operation of the Guarantee Scheme. The practice followed by institutions in regard to guarantee fees to be borne by them or to be passed on the small borrowers is not uniform. The guarantee fee in respect of the Composite Loan Scheme is generally borne by the institutions fully. Some institutions have adopted a policy of bearing the guarantee fees in respect of loans upto Rs. 2 lakhs. The Committee feels that this is a good policy worthy of adoption by all the institutions. The Committee notes that suitable guidelines have been issued by the RBI in March 1984 in this regard. As regards other small-scale borrowers, the prevalent practice of the institutions is to pass on guarantee fees to the borrowers. As a result in case of certain category of small-scale borrowers, the incidence of interest burden (including guarntee fee) works out to be higher than those for medium scale industries. The Committee is of the view that there is an urgent need for evolving mechanism for the sharing of guarantee fees between the institutions so that no small borrower even if the borrowing is done through cover/support organisation is charged a higher rate of interest than that if he had borrowed directly in an individual capacity. The Committee suggests that existing guidelines should be suitably reviewed by the RBI and fresh guidelines may be issued to the institutions expeditiously.

8.24 The institutions are also facing difficulties as there is a backlog of claims to be settled, particularly those claims pending under the Government of India's Scheme as on March 31, 1981. The Committee was informed that the DICGC has stepped up claims settlement considerably by streamlining its procedures and simplification of claim formats and introduction of computerisation since 1983 in respect of small value claims. Still, claims worth Rs. 97.45 crores were pending as on January 1, 1984. The Committee suggests that in view of the large backlog of claims, Government of India and DICGC should take expeditious steps to settle them and also to ensure that fresh claims especially of relatively small amounts are settled within a reasonable period of, say 2 to 3 months, after lodgement by credit institutions, subject to normal safeguards. The DICGC may also improve their monitoring mechanism so that credit institutions submit periodical reports regarding recovery of dues from those accounts for which claims have already been settled to enable the Corporation to receive its due share under its subjudigation rights. The position of claims received, disposed of and pending at the end of year 1981, 1982 and 1983 in respect of Schemes of the Government of India and DICGC is given below:—

(Amount Rs. Crores)

	Claims received		Claims disposed of		Claims pending as at the end of the year	
	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7
Government's Credit Guarantee Scheme for small scale industries (since cancelled as on 31st March, 1981)						
Claims pending as on 1st April 1981 (taken over from the Reserve Bank of India).	30,826	98·18	..	..	30,826	98·18
1st April, 1981 to 31st December, 1981	13,911	20·56	5,447	10·69	39,290	108·05
1st January, 1982 to 31st December, 1982	10,447	20·53	20,445	24·43	29,292	104·15
1st January, 1983 to 31st Dec. 1983	7,878	20·08	19,469	26·78	17,701	97·45
Corporation's Small Loans (SSI) Guarantee Scheme, 1981						
1st April, 1981 to 31st December, 1981	1,308	1·74	..	..	1,308	1·74
1st January, 1982 to 31st Dec. 1982	4,013	9·40	3,105	2·13	2,216	9·01
1st January, 1983 to 31st Dec. 1983	9,325	32·58	7,328	12·93	4,213	28·66

CHAPTER IX

ROLE OF PROMOTIONAL ORGANISATIONS IN THE CREDIT FLOW TO VSI SECTOR

9.1 In this chapter an attempt has been made to delineate the role and functions of the different financial institutions and promotional organisations vested with the development of the various segments of the village and small industries sector. The system approach has been evolved wherein the coordination between agencies and streamlining of procedures is brought within the gamut of the overall credit system as discussed in Chapter VIII. The effort to delineate the functions has been made largely to subserve the following objectives:

(i) to avoid diffusion of perspective,

(ii) enable single point instead of multi-agency dispensation of credit,

(iii) provide for total cost rather than componentwise requirement,

(iv) strengthen infrastructural support including extension services and marketing support,

(v) affix responsibility on promotional agencies to develop entrepreneurial talent and disseminate technology to them,

(vi) instal entreprenourial culture and bring about attitudinal changes within the promotional agencies,

(vii) promote project oriented rather than security oriented approach.

(viii) pave the way for simplifications called for in terms of adoption of "Organisations and Methods".

9.2 Each of the segments of the village and small industries sector have their own unique organisational framework established with the specific objective of promoting the development of the specific sector. The highlights of the functioning of these different specialised boards, the manner in which credit flow is channelised, the organisational linkages which exist and the changes called for both in respect of operational and programme orientation are dealt with in the following paragraphs.

Khadi & Village Industries.

9.3 Activities relating to Khadi and Village Industries are being promoted at the national level by the Khadi and Village Industries Commission and executed at the State level through the Khadi and Village Industry Boards and directly aided institutions.

9.4 The organisational flow chart demarcating the agencies involved in the process of implementation of programmes is given below:

KHADI & VILLAGE INDUSTRIES COMMISSION (KVIC)

- Khadi & Village Industry Boards (KVIB)
  - District set-up of KVIBs
    - Cooperatives
      - Artisans
  - Individual artisans & Entrepreneurs
- Directly Aided Institutions
- Direct Activities
  - —Hill, Border, Tribal and Weaker Section Areas (HBTWSA)
  - —Marketing through departmental outlets.

9.5 The Committee was informed that KVIC's experience with the implementing agencies has, by and large, been varied. While interaction with voluntary agencies has been more or less satisfactory, experience with industrial cooperatives has not been very encouraging. More than 50 per cent of the cooperatives are reported to be dormant due to insufficient equity base, uneconomic size, inadequate managerial support etc. The Committee suggests that a high level expert group of the concerned institutions & organisations including representatives from the Central Government and State Cooperative Departments, be constituted to go into the problems of these cooperatives and suggest measures for activising them and for promoting their healthy growth.

9.6 It may be of interest to note that while the term "Khadi" has a specific definition under the Khadi and Village Industries Commission Act, 1956, the term Village and Cottage Industries' have not been clearly defined except to include those industries covered by the schedule under Section 3 of the Khadi & Village Industries Commission Act and deemed as village industries. The list of specified village industries has been given in Annexure X. Realising this basic lacuna, the Committee endorses the suggestion of the National Committee on the Development of Backward Areas (NCDBA) in its Report on Village & Cottage Industries, in March 1981, that the Ministry of Indutsry evolve a comprehensive definition of village industries and if necessary enlarge the scope also. The

Committee further feels that as definite criteria would be very advantageous, the Ministry of Industry may address itself to this task without further delay.

9.7 KVIC has classified its directly aided institutions into three major groups for the purpose of dispensing credit to khadi activities. These have been dealt in detail in Chapter V.

9.8 The Committee noted that KVIC has met with considerable success in availing institutional finance for Khadi on account of the fact that Khadi is an institutionalised programme with a streamlined costing system and accounting procedures. The same extent of success is not reflected in the village industry programmes on account of the widely dispersed nature of these industries, absence of interest subsidy scheme for individuals, inadequate organisational coverage by KVIB in the rural areas, lack of suitable monitoring mechanism about utilisation of credit, slow percolation of technological improvements, increasing competition from products of other competing sectors, difficulty in ensuring quality and standard products, illiteracy and ignorance of artisans, orientation to only a limited local market, lack of proper escort service by the KVIBs etc. Individual artisans in isolated cases procure credit under the scheme of Differential Rate of Interest (DRI) for loans upto Rs. 6,500/-, Composite Loan Scheme (CLS) for loans upto Rs. 25,000/-, Integrated Rural Development Programme Scheme, Financing Scheme for tiny sector units for loans above Rs. 25,000/-

9.9 In the context of the above the Committee feel that besides finance, village industries require broad support in terms of:

(a) enlargement and reservation of specified items for production in the village industries sector;

(b) continuous updating and dissemination of technology to the field;

(c) provision of training, design and market intelligence to enterpreneurs to enable change in production lines and thereby capture a larger market;

(d) supply of raw materials particularly those not locally available at reasonable rates;

(e) improvement in tools and techniques;

(f) developing the necessary marketing framework to cater to local and outside markets;

(g) standardisation of products and ensure its availability through normal distribution channels;

(h) ensure availability of credit locally; and

(i) general extension support and counselling.

9.10 Keeping the above in view, the Committee considers the following to be of crucial importance:

(i) There should be a rationalisation of the whole system of support and credit facilities;

(ii) All village/cottage industrial units/artisans which/who are situated in towns and utilise locally available men and raw material, should be expeditiously included in the Schedule to the KVI Act except handlooms, handicrafts, sericulture and coir for which separate national boards/agencies exist;

(iii) The feasibility of reservation of itmes for exclusive manufacture in the village and cottage industries, handicrafts, handlooms etc. may examined and suitable criteria may be evolved for this purpose.

(iv) There should be a strengthening of the organisational set-up of the KVIC at the apex level and of the KVIBs at the State level, upto the field level in respect of the Khadi and Village Industries, particularly in terms of identification of projects/schemes, updating of technology and adoption of improved techniques, supply of raw materials, extension of credit and marketing support, standardisation of KVI product, provision of need-based training/servicing centres and extension services and support. Responsibility for developing coordination with credit agencies has to be vested with promotional bodies and matching contribution of budgeted outlay by State Governments has to be provided in relation to the existing provision made to State KVIBs by the KVIC.

(v) Experience has shown that village industry programmes have been by and large successful in areas where voluntary agencies are active. But as the number and delivery mechanisms of voluntary organisation are not uniform in the country, there is need for KVIC and other promotional agencies to develop their own hierarchy and extend their administrative machinery to the unit/project level.

9.11 The Committee after considering the various alternatives and also the model suggested by the National Committee on Development of Backward Areas (Annexure XIII) has come to the conclusion that the Ministry of Industry may constitute a group of the concerned Central and State level promotional organisations to evolve a suitable model to reach to the village level to achieve the objectives of promotion of village industries and to ensure adequate and timely credit for their promotion.

9.12 The effort of the Central Govt may have to be supplemented by active State participation to ensure development and implementation of village industry programmes. To ensure greater state participation, one department may be entrusted with the responsibility for the development of rural industries and maintain coordination with concerned departments, revitalise the State KVIBs to establish better forward and backward linkages and matching contribution be made to KVIB from State budgets. In fact the Committee suggests that the ideal situation would be to limit the role of KVIC to policy formulation at the

national level, international and interstate coordination, overall planning, budget allocation, monitoring and coordinating the research work. KVIB's role at the State level should be that of the principal implementation agency with its organisational set-up extended upto the grass-root level.

9.13 The Committee while recognising the need for extending the implementation machinery upto the field level is of the view that creation of new agencies would only mean proliferation and give rise to further problems of coordination and implementation. It would on the other hand be cost effective to extend the field machinery of KVIC to the district level. Further inroad into rural areas may be desirable but this may have to be weighed in terms of financial implications and practical limitation. In essence KVIC may remain a foot loose organisation limiting its reach to the district headquarters.

9.14 On the other hand, voluntary agencies should be encouraged at block/taluka levels to assist artisans with essential inputs and back-up services and also maintain a liaison with the commercial banking system.

9.15 In so far as technology is concerned, the Committee is in agreement with the suggestion for setting up of a National Board of Research and Technology for the small scale sector. Large and medium industries are capable of upgrading the technology through various research organisations, through import of technology etc. Considering the need for upgradation of technology for tiny, village and cottage industries, Government have recently set up a Council for Advancement of Rural Technology (CART). There are a number of organisations such as CSIR, NRDC, SISIs, State Government technological organisations etc. undertaking technological research. The need for a single agency similar to CART is recognised for the purpose of coordination of the activities of various research organisations, identification of areas of research, reviewing progress, documentation and dissemination of the results of research. This need could be met by setting up the National Board of Research and Technology for Small Scale Sector.

9.16 For increasing credit availability to the KVI Sector, it is necessary to involve various types of institutional financing agencies such as commercial banks, co-operative banks, regional rural banks and State Financial Corporations as the pattern of organisation for implementing KVI programme differs from state to state. Similarly refinancing facility for advances to the KVI Sector should be made available both from NABARD and IDBI. The credit needs of the KVI sector should be progressively met from the institutional financing agencies. This should not present any difficulty as all the schemes of KVIC are financially viable and a large number of them have been accepted by NABARD. However, such a switch over is bound to be gradual as the KVI activities and the institutions will have to muster sufficient strength to become eligible to borrow loans from banks. Till such time budgetary resources may continue to play their role to supplement the resources raised from the institutional financing agencies.

9.17 Because of certain legal and technical difficulties, NABARD is not in a position to extend the required credit support to institutions registered under the Societies Registration Act, 1860 which is one of the important forms of organisations implementing KVI programmes. Similarly, NABARD is not in a position to extend credit support in the shape of refinance facilities to KVI organisations as they have to obtain their requirements either from the co-operative banks or from the regional rural banks to become eligible for the benefit of refinance under NABARD. Similarly, IDBI too cannot extend the benefit of refinance for working capital requirements of the KVI institutions, as IDBI is mainly involved in extending term finance. The refinance facility available under IDBI for individual artisan is upto Rs. 25,000 as composite loan. It is well-known that cottage and village industries sector largely requires working capital finance as compared to term finance. Similarly, the artisan has to come under the organisational fold either of a co-operative or an institution registered under Societies Registration Act, 1860 or a similar organisation for obtaining the benefit of linkages both forward and backward. Therefore, there is need to remove all the constraints to enable both the refinancing agencies—NABARD and IDBI—to extend their support to the cottage and village industries sector. Even though the resources of commercial banks were reported to be adequate there is need to further strengthen the availability of finance to the KVI sector. It is, therefore, recommended that NABARD should (i) extend refinance facility to the institutions registered under Societies Registration Act, 1860 or similar type of cover organisations and (ii) utilise the channels of commercial banks or State Financial Corporations for assisting cottage and village industries (including Khadi). Similarly, IDBI too should (i) extend the benefit of refinance for working capital advances required by the cottage and village industries (including Khadi) sector either for individual artisans or to co-operative societies or to institutions registered under the Societies Registration Act, 1860 or any other similar type of cover organisations and (ii) extend the advantage of lower rate of interest under the scheme of composite finance upto Rs. 25,000 to cover organisations as listed above, engaged in implementation of cottage and village industries (including Khadi). The restriction regarding places below 10,000 population in the case of IDBI for the benefit of refinance facility for cottage and village industries (including Khadi) should be removed and the artisan and the cover organisations, as indicated above, should be entitled for the benefit of lower rate of interest under the scheme of composite finance or similar other schemes irrespective of location.

9.18 The existing scheme of interest subsidy sanctioned by the government to the KVI has certain inherent advantages as it is linked with the entire development programme relating to KVI and provides for linkages both forward and backward to the programme

and with a mechanism of identification of the borrower agency and its need. At present, KVI institutions are experiencing certain difficulties in obtaining finance from the banks. In a number of cases, banks provide credit to KVI institutions for smaller amounts than recommended by KVIC/KVIB in the eligibility certificates issued by KVIC/KVIB under the interest subsidy scheme. The Committee was informed that this question was examined when the matter was discussed in a special meeting convened by the Governor, RBI on 10th July, 1982 and attended by Chairman, KVIC, and the Chairmen of some nationalised banks. It was agreed that, by and large, the assessment made by the KVIC/KVIB for the purpose of issuing interest eligibility certificate should be acceptable to the banks but the banks have a right to exercise their own judgement in the matter. The Committee endorses this view and recommends: (i) that credit agencies should give weightage to the recommendations made in the interest subsidy eligibility certificate issued by KVIC/KVIB and (ii) that credit agencies should not summarily reject applications from eligible borrowers, if recommended by KVIC/KVIB. In the event of any disagreement about the assessment, the credit agencies should communicate to KVIC/KVIB the reasons for not accepting the assessment made by KVIC/KVIB.

9.19 KVIC keeps an imprest amount with the State offices of the KVIC to meet the interest subsidy claims referred by the banks. In the event of delay in payment of interest subsidy to the banks, the borrowing institutions are put to hardship for no fault of theirs as normally either initially the banks debit interest subsidy component from the institutions' account and give credit on receipt of the amount from KVIC or charge interest for the time lag involved in receipt of interest subsidy amount. As in both cases, the institutions are put to hardship, the Committee recommends that KVIC should place adequate imprest with the concerned banks to enable them to draw interest subsidy portion and claim from KVIC from time to time by way of recoupment. The modus operandi for this may be worked out by KVIC in consultation with banks.

9.20 The system of blanket insurance coverage for the assets of the cottage and village industries sector (for individual artisan as well as for organisations), with a lower rate of premium may be devised in consultation with General Insurance Corporation of India. Such a scheme is all the more necessary as the risk involved in the loss of assets is more in the case of small units since they do not have their required capacity to bear the incidence of cost involved in the insurance cover. Even for bigger units the stocks are held at different points. Similarly, some of the institutions are facing the problem regarding payment of insurance premium. When KVIC under its interest subsidy scheme provides for surrender of first charge in favour of banks by issuance of disclaimer of prior rights certificate in favour of banks and as advances are sanctioned against security of assets, the incidence of guarantee charge for the institutions engaged for the benefit for smallest of the small should not be insisted upon or at best be very nominal.

9.21 There is need to bring some parity in the interest rates charged by the commercial banks and the co-operative banks for priority sector advances.

Handlooms

9.22 In the handlooms sector the All India Handlooms and Handicrafts Board is the apex body which is an advisory body essentially concerned with formulation of development programmes for the handloom industry falling within the administrative purview of the Ministry of Commerce. In addition, the National Handloom Development Corporation also operates at the national level. The implementing agencies at the State Level are the Handloom Development Corporations and the Handloom Cooperative Societies.

9.23 Basically, the Handloom Development Corporations are dependent on Commercial banks for meeting the needs of their weavers. Weavers obtain credit from the banks on the recommendations made by these Corporations. The terms and conditions of assistance are determined by the type of scheme, viz. Differential Rate of Interest, Composite Loan Scheme, IRDP under which assistance is sought for a particular scheme. Credit becomes available to the Handloom Cooperative Societies from the Central Cooperative Banks which are primarily agricultural oriented in outlook. No separate handloom financing cells exist in these banks thereby resulting in delay in dispensation of credit which was inherent implications for the abovementioned executing agencies.

9.24 The Handloom Development Corporations by and large are faced with inadequate resources for working capital for purposes of stocking of raw materials, finished goods and for marketing arrangements. Also, though the Corporations cater to the weavers, the rate of interest charged by the banks to the weavers is not extended to the Corporations despite the fact that they cater to the same target group. To increase the availability of working capital the banks may be reoriented to provide investment credit for pre-loom facilities like setting up of dye houses, bleaching units, acquisition of new looms, modernisation of old looms and for post-loom activities like processing of grey cloth, printing etc. The commercial banks and regional rural banks may continue to supply credit to the handloom weavers at concessional rates of interest and the entire refinancing be left to NABARD.

9.25 Measures need to be evolved through establishment of Special Cells at least in the banks located in areas where there is a concentration of handlooms beyond a particular limit to give the necessary push to handloom development programmes. The working of the weavers cooperative societies however has not been uniform in all the States. The NABARD, already engaged in this field, could give serious thought to this and evolve suitable schemes and design an operational monitoring mechanism to adequately regulate the flow of credit. Further, wherever the functioning of the

Weavers Cooperative Societies is satisfactory but adequate flow of credit is not forthcoming from the Central Cooperative Banks, the possibility of financing weaver societies directly by the State Cooperative Banks or Regional Rural Banks may be explored. To ensure timely sanction of credit limits to Central Cooperative Banks for financing weavers societies, the Regional Offices of NABARD may be delegated powers to sanction adequate limits. To prevent blocking of funds, a Rebate Adjustment Fund may also be created with the Apex Society and a portion of the budgeted outlay may be deposited by the State Govt. towards rebate in this fund.

9.26 To facilitate better coordination between Handloom Development Corporations and banks, the clearance of applications may be carried out at joint meetings. NABARD could function as the sole refinancing agency for both Handloom Development Corporations and Weavers Cooperative Societies. In addition block capital obtained from development agencies/ Govt. may be used as margin money so that adequate institutional finance could be mobilised. The banks might also consider financing of showrooms, emporia, etc. which may be refinanced by NABARD. The latter may also take up funding of R&D activities aimed primarily at improving productivity and quality and dissemination of the same to handloom weavers. The States on their part could emulate the "cluster approach" adopted by the Andhra Pradesh State Government whereby package assistance covering infrastructure and other facilities is provided.

Handicrafts

9.27 For the development of handicrafts, the All India Handlooms & Handicrafts Board is at the apex level and at the field level are manufacturing establishments and small household type units widely dispersed over rural and urban areas. Institutional credit for this sector flows to individual craftsmen, handicraft cooperatives and State Handicrafts Development Corporations. While individual craftsmen obtain credit from commercial, cooperative and regional rural banks, cooperative societies procure finance from cooperative banks. The State Handicrafts Development Corporations normally avail of cash credit facilities from commercial banks for meeting their working capital requirements. Currently NABARD provides refinance assistance to cooperative banks and regional rural banks and IDBI's refinance is available to commercial banks for loans and advances under DRI scheme.

9.28 It is suggested that for bank assistance to handicraft artisans under the composite loan and IRDP schemes, NABARD should be the sole refinancing agency except for marginal changes to be made to these schemes. For cooperatives, a pattern similar to handloom cooperatives may be followed, i.e. a subsidy of 3 per cent be made available by State Govts. In addition the quantum of financing for working capital requirements may be enhanced to 50 per cent as against the existing 40 per cent being given to handloom cooperatives. Handicrafts Development Corporations should be extended concessional credit by commercial banks on the same lines as are available to handicraft artisans. The overall promotional, infrastructural and marketing responsibility should be vested with the Handicrafts Corporations and bank advances to these Corporations should be eligible for refinance from NABARD.

Coir

9.29 Coir Industry, a highly labour intensive agro-based industry is largely concentrated in the States of Andhra Pradesh, Karnataka, Kerala and Tamil Nadu. The Coir Board is at the apex level which has been entrusted with the task of organising technical research, training programmes and export promotion. The Coir Board is supported by a network of sub-regional offices, Central Coir Research Institute, National Coir Training & Design Centre, Demonstration-cum-Extension Centre, Showrooms and sale depots in discharging its functions and responsibilities. The Directorates of Coir provide necessary support in the task of implementing the different schemes and programmes in the State. Coir industry units exist both in the cooperative as well as in the private sector.

9.30 Financing of industrial cooperatives is within the jurisdiction of the cooperative banking structure. Refinancing facilities are available from NABARD only in respect of production-cum-sale of primary coir cooperatives (both yarn mats and mattings). At present no part of the limit sanctioned to a bank by NABARD can be utilised by it for financing a society engaged in the sale of coir products not produced on its own account by members. The accommodation provided by NABARD is in the nature of reimbursement finance and the limit is sanctioned on April-March basis.

9.31 NABARD should consider providing refinance facilities on liberal terms and also interact with the National Cooperative Development Corporation to formulate special schemes for financing of coir sector. State and District Central Cooperative Banks should be geared up by State Govts./NABARD to take active interest in obtaining credit limit applications from the societies in time, scrutinise these applications expeditiously and forward the same to NABARD through proper channels within the stipulated time. As turnover of coir products takes place once in 6 months, there appears to be need for raising the refinance facility for working capital requirements from 40 per cent to 60 per cent of the anticipated value of sales. Cooperativisation on a large scale should be encouraged particularly in areas where a cluster of coir workers operate. The new coir cooperatives may be povided with long-term financial assistance by the NCDC upto 50 per cent of the total cost treating coir cooperatives as processing societies. Assistance may also be extended to apex marketing societies by the Coir Board for developing the market for coir and coir products. This may take the form of grant for face-lifting of showrooms and financial assistance extended by NCDC for transporting fibre and finished goods between the societies and the market. State Cooperatives Coir Market-

ing Federations may be established in States where marketing federations do not exist.

9.32 In addition to the above NABARD may consider streamlining of procedure (discussed in Chapter VIII) and render necessary training to officers in the cooperative banks incharge of sanctioning credit limits. The regional offices of NABARD may be authorised to sanction credit limits as against the present practice of referring them to the Head Office.

Sericulture

9.33 The development of sericulture in its different aspects including research, extension, basic support is provided by the Central Silk Board at the apex level and the Directorate of Sericulture of the State Govts. at the State level. The Central Silk Board has under its umbrella 3 Research Institutes, 10 Regional Research Stations and a large number of Extension Centres and Sub-stations to undertake sericulture development for all the varieties of silk i.e. mulberry, tasar, eri and muga. National Cooperatives Development Corporation (NCDC) also plays a role in sericulture development by promoting various activities of sericulture cooperatives.

9.34 As regards credit flow, at present, commercial banks, Regional Rural Banks, Land Development Banks, Apex Cooperative Banks and District Central Cooperative Banks extend finance for meeting sericulture requirements. Credit requirements in sericulture are both short-term and long term. Credit needs for sericulture cover mulberry cultivation, silkworm rearing and reeling and twisting. While mulberry cultivation and rearing of silkworms are considered as on-farm activities, reeling and twisting activities are in the nature of cottage or tiny industries. For the rearing of silkworms large number of rearing equipment is needed namely stands, rearing trays, chandrikas, chopping knives and boards and other implements like leaf chambers, gunny cloth etc. Reeling requires the usage of cottage basins, charkas and semi-automatic machines and twisting requires twisting machines, winding machine, doubling machine, handwarp etc. The commercial banks and regional rural banks finance sericulturists directly through Sericulturists Societies or Primary Agricultural Cooperative Societies ceded to them. The NCDC provides loans to State governments for strengthening the share capital base of sericulture cooperatives and the primary cooperatives undertaking reeling of yarn. The sericulture cooperative societies both at the State and primary levels are given loans and subsidy through the State govts. for construction of warehouses. Loans and subsidy are also extended to primary societies for establishment of grainages and filatures.

9.35 Experience has however shown that financing of sericulturists cum farmers service cooperative societies has not been satisfactory on account of organisational problems and the defaults of the members. Even in satisfactory cases, the societies find it difficult to obtain finance from District Central Cooperative Bank on account of their non-eligibility to obtain refinance from RBI/NABARD due to heavy overdues. While cooperatives are suited for financing sericulture activities, the sericulturists might be financed by commercial banks or regional rural banks in the areas where cooperatives are weak. Where primary societies are functioning satisfactorily but District Central Cooperative Banks are weak and unable to obtain finance from NABARD, such societies may be financed directly by State Cooperative Banks or it may be done by Regional Rural Banks if established in those rural areas.

9.36 The entire refinancing of sericulture activity may be done by NABARD, which should refinance processing activities also like semi-mechanised reeling, twisting, dyeing, finishing, etc. and plan suitable schemes for financing non-mulberry silk. One major problem often faced in financing sericulture activities is the ineligibility of sericulturists to avail fresh credit on account of past defaults. Some distinction needs to be made between wilful and non-wilful defaulters and the latter category should be considered for sanction of fresh loans for minor irrigation, new planting, rearing equipment, rearing houses, etc. Wherever crop failures or other calamities occur on a large scale, the State Government should examine the position in consultation with NABARD and recommend rescheduling of loans. In addition a scheme of insurance like the Credit Guarantee Scheme being operated in the small scale sector may be evolved to insure against crop losses. This might to some extent alleviate the financial problems of sericulturists. Activities relating to raising of plants in the case of non-mulberry silk have to be brought within the ambit of institutional credit. To ensure better efficacy in planning and execution of programmes, greater coordination between the Central Silk Board (CSB), State Governments and NABARD deserves special attention.

Small Scale Industries

9.37 For the development of small scale industries defined as units having investment in plant and machinery upto Rs. 20 lakhs and ancillary units having investment upto Rs. 25 lakhs, a network of institutions exists to promote their development and extended basic support both at the national and the State levels. At the All-India level is the Small Industries Development Organisation (SIDO) assisted by its network of 26 Small Industries Service Institutes (SISIs), 20 Branch SISIs, 40 Extension Centres, 4 Regional Testing Centres, 1 Product cum Process Development Centre, 2 Footwear Training Centres, 4 Production Centres, the National Small Industries Corporation (NSIC) and Small Industry Extension Training Institute. At the State level, the promotional organisations include the Directorates of Industries, the State Financial Corporations, the State Industrial Development Corporations, the State Small Industries Corporations, the Technical Consultancy Organisations and the set up of the District Industries Centres at the district level. In some States, Infrastructure Development Corporations have also been established to provide the requisite infrastructure support.

9.38 The medium and long term credit needs of the small scale industries are being met by the State Financial Corporations (SFCs), and other eligible State level institutions. Commercial banks meet largely the working capital requirements. The NSIC extends hire purchase facilities for purchase of machinery and equipment. The capital expenses for modernisation and expansion of existing units are also being financed by SFCs and banks. The 20 industries identified on an All India basis and 38 industries on a regional basis selected by the Office of DC (SSI) are eligible for finance from banks for modernisation. With the exception of short term advances above Rs. 25 lakhs, which are charged interest at commercial rates as applicable to medium and large industries, all other loans below the level of Rs. 25 lakhs granted by banks to small scale industries bear concessional rates of interest. Term loans are normally payable in three to seven years. The actual schedules of repayment are designed after taking into account the surplus generating capacity of the units financed, the break-even point, etc. Schedules are reviewed in case of small scale units defaulting because of circumstances beyond their control. Banks charge penal interest of 1.5 per cent for units with working capital limits over Rs. 1 lakh but upto Rs. 2 lakhs and 2.5 per cent for units with working capital limits of Rs. 2 lakhs and above in the case of wilful defaults to act as a deterrent.

9.39 Commercial banks and other eligible credit institutions giving loans to small scale industries at present get guarantee cover from the Deposit Insurance & Credit Guarantee Corporation (DICGC) upto 75 per cent for borrowers with total credit facilities not exceeding Rs. 2 lakhs, 50 per cent for borrowers with aggregate credit facilities exceeding Rs. 2 lakhs but in the case of borrowers in specified backward districts and other areas as specified by DICGC, the guarantee cover is available upto 2/3rd of the amount in default. The claim liability per borrower is not to exceed Rs. 10 lakhs, irrespective of the number of credit institutions from which he might have borrowed. Once the bank enters into an agreement with DICGC, the guarantee automatically cover all eligible loans extended by it.

9.40 Despite the fact that the small scale sector had made rapid strides in terms of both production and exports over the last decade, still the credit flow to this sector cannot be said to be uniform in the case of all the eligible units. While the larger of the small scale units have reaped maximum advantage, the small ones, particularly those in the tiny sector, have been left behind. One major factor which is considered to be responsible for this state of affairs is the definition of small scale/tiny units which has been linked only with investment in plant and machinery and has nothing to do with the turnover of the unit. It has, therefore, been argued that a unit in the tiny sector should be defined on the basis of total project cost and not its investment in plant and machinery. This matter was considered by the Committee and it is of the view that the investment limit on plant and machinery is only for identification of this sector and does not preclude including the other cost factors for the purpose of larger credit flow to this sector. It was also pointed out that prices of land and building vary from place to place and from situation to situation even in the same State, hence cannot provide a stable base for definition. The Committee, therefore, suggests that the ceiling of investment on plant and machinery should continue to be the basis for definition of tiny sector and small scale industries.

9.41 Some of the specific problems which the small scale units currently face include lack of entrepreneurial guidance in the absence of proper coordination between State-level authorities, organisations and banks, weak equity base resulting in heavy external borrowing, delays in getting institutional finance (i. e. financial institutions and banks), delays in getting industrial sheds and other infrastructural facilities, inadequate resources for modernisation, heavy interest burden, unorganised market and delay in payment of bills from medium/large industrial units both in the private as well as in the joint and public sector. Lack of reliable data is a constraint for planners and policy makers in assessing the growth of this sector as also for planning and implementation.

9.42 At the district level, the District Industries Centre (DIC) acts as the promotional agency for development of the village and small industries sector. The assistance provided covers pre-investment, investment and post-investment phases of production. Besides, close coordination with the concerned industry department is also envisaged so as to enable the DIC to function as a single-window extending different services at the district level. Apart from the promotional role, the DIC is also to act as an office of record for collection of detailed basic industrial statistics. As regards the specific function it discharges in the field of credit, the post of Credit Manager has been filled up by officers deputed from the banks. The Credit Manager provides the necessary assistance to the entrepreneurs in preparing bankable project profiles. The DIC then recommends the applications to the banks for sanetion and clearance. The DICs should be strengthened in such a manner so that they plan their growth and draw up District Development Plan which could form an input for the District Credit Plan. An all India cadre of Small Industries Promotion Officers can be created for this purpose who should be provided intensive training in all aspects of "development banking" including entrepreneur identification and motivation, project evaluation, follow up and in plant counselling.

9.43 A low equity base in the small scale units reduces their borrowing capacity. It would be desirable to change the pattern of funding by relating it to total project cost. In this connection, establishment of a National Equity Fund has been considered by the Committee details of which have been discussed in Chapter X.

9.44 The Committee feels that there is need for implementation of "Capital Mobilisation Scheme", whereby in lieu of income tax payment, small scale industries units are allowed to put the amount of

tax as a long-term non-refundable deposit in a bank which they may be allowed to draw for expansion, modernisation, diversification and working capital.

9.45 The Committee was informed that there are delays in getting sanctions and disbursements due to a variety of reasons. The representatives of small scale industries associations have pointed out to the Development Commissioner's Office that the delays on the part of banks are due to (a) limited powers of branch managers requiring references to higher authorities, (b) inefficient appraisal at the branch, (c) limited staff facilities at the branch level, (d) lack of time and expertise at the level of branch office and (e) non-use of the branch managers discretionary powers in view of the risk element involved. Obviously there is need for a complete change in the attitudes, approach and perceptive and ability of the bank personnel.

9.46 As regards delayed payments, Reserve Bank of India (RBI) has already given instructions to the banks to assist the clientele in getting their payments. Banks are required to ask the medium/large industrial borrowers to send their quarterly statement showing dues of small industries remaining unpaid for over 120 days. The banks have also been permitted to fix within the overall credit limits allowed to medium/large industrial borrowers, separate sub-limits for acceptance/letters of credit facilities which may be utilised only for purchases from small units. Recently RBI has also introduced two other specific measures in this regard. Firstly, performance of banks in increasing their portfolio of drawee bills relating to supply of raw materials by SSI is to be taken into account while sanctioning discretionary finance. Secondly, in the case of borrowers having aggregate working capital limits of Rs. 50 lakhs and over the operating bank credit limit is to be automatically reduced if sundry credits rise above a stipulated level. However, in practice, these instructions are not being enforced on account of a variety of factors.

9.47 To ensure continued availability of credit, it is necessary to make it binding on the State Financial Corporations and State Level Institutions to meet the entire term finance of the small scale units once the project is cleared. If necessary, suitable modifications under Section (7) and (26) of the SFC Act, 1951 should be made. The Memorandum and Articles of Association of various State level agencies should also be amended for this purpose and their resource position sufficiently strengthened. The State Government should also allow other state level corporations to issue such bonds against the guarantee of the State Government so that State level institutions are able to mobilise resources. The foreign currency lines of credit may also continue to be passed on by IDBI to SFCs for on-lending to SSI units. The banks should fully meet the requirements of working capital of SSI units and these limits should be granted in a 'package' so that the units have the flexibility of availing the facilities from banks of varied nature depending on their requirement. In fact provision of insufficient/inadequate finance could do more damage to the enterprise than no financing at all.

9.48 IDBI could consider extending refinance facilities for smaller industrial estates. IFCI could take up direct financing of industrial estates especially where they are on a cluster basis. For small industries, until the formation of Apex Financial Organisation for the VSI sector the IDBI should be designated as the sole refinancing agency for regulating the terms and conditions of credit and the interest rate structure. It should also evolve schemes for providing financial assistance for various purposes necessary to promote SSI units. To facilitate better and more meaningful coordination, a forum both at the State and district levels may be created. The District level Committee already in operation should be further strengthened. The need for extending the consortium approach in the financing of small scale sector may also be explored.

9.49 Another general suggestion which needs careful thought is the extension to promotional organisations like State Industrial Development Corporations and Infrastructural Development Corporations of the same concessional rates of interest as are applicable to artisans and the target groups at least in respect of those institutions which the RBI directive has not yet covered.

CHAPTER X

NATIONAL EQUITY FUND

10.1 Equity assistance to small scale units has to be viewed as making seed capital available so that the gap between the margin required for obtaining institutional finance and the funds available with the entrepreneur is bridged. Due to limited resources of his own and non-corporate form of his business, the small scale entrepreneur has necessarily to rely heavily on external borrowings to set up his unit. But either lack and/or inadequacy of it with the entrepreneur acts as a serious impediment in his obtaining loan from financial institutions. The entrepreneur's problems are by no means over even where he succeeds in getting a loan. A high debt equity ratio increases his financial burden in the form of interest payment and debt repayment and very often sows the seeds of sickness. The findings of the Study Team of the State Bank of India (1979) on the Problems of Sick Small Scale Industrial Units showed lack of equity to be one of the basic shortcomings which makes most of the small scale units prone to sickness.

10.2 Against ths background, it is worthwhile to briefly review the different existing schemes of equity assistance. The Industrial Development Bank of India (IDBI) has introduced two schemes, the Special Capital and the Seed Capital Schemes to provide equity to entrepreneurs who do not have adequate resources of their own.

Special Capital Scheme

10.3 Under the guidelines issued by the IDBI, the State Financial Corporations (SFCs) can raise special capital to provide equity type of assistance on soft terms to such entrepreneurs who possess necessary skills or practical experience but lack financial resources to set up projects, primarily in the small scale, tiny and decentralised industrial sectors. The projects selected for assistance have to be such as may be eligible for financial assistance under the SFCs Act. Assistance under the scheme is limited to the gap between the minimum promoter's contribution expected by SFC and the amount the entrepreneurs is actually able to bring either himself or from his relatives and friends. The maximum assistance admissible is ordinarily 20% of the project cost or Rs. 2 lakhs whichever is lower and the rate of interest applicable on such assistance is 1%. A moratorium upto 5 years is given in respect of repayment of instalments and three years for payment of interest. At the end of March, 1984, SFCs had raised special capital of Rs. 15.27 crores and sanctioned Rs. 14.22 crores.

Seed Capital Scheme

10.4 The Seed Capital Scheme of the IDBI was liberalised during 1981-82 to widen its coverage to include promoters in the small scale sector who may be setting up a project for the first time and those undertaking expansion/modernisation/diversification of their unit. The scheme is administered both by SIDCs and SFCs. All projects that are eligible for financial assistance from IDBI either directly or through refinance are eligible for assistance subject to a ceiling on the project cost of Rs. 2 crores. Assistance under the Seed Capital Scheme is in the form of a soft loan to the project which is treated as equity for computing debt equity ratio as also promoter's contribution. The quantum of assistance is determined on the basis of the gap between equity for the project and the funds mobilised by the entrepreneur and also the subsidies/incentives given by financial institutions subject to a ceiling of Rs. 15 lakhs per project. The seed capital advance is interest free but carries a nominal service charge of 1%. The repayment schedule is fixed depending upon the repaying capacity of the unit with an initial moratorium period of 5 years. At the end of June, 1984 sanctions under the scheme amounted to Rs. 30.27 crores.

10.5 For a clear demarcation proposals involving assistance of Rs. 2 lakhs or less in the small scale sector or ancillary sector are considered by SFCs under the Special Capital Scheme and those exceeding Rs. 2 lakhs under the Seed Capital Scheme.

Equity Fund Scheme of State Bank of India (SBI)

10.6 Out of its profits the State Bank of India has created a fund to provide equity support to small scale industrial units. In order to be eligible for assistance under the scheme, the unit in question has to be a new one confining its entire borrowings from the SBI and the project should be considered eligible for finance under the SBI Entrepreneur Scheme or the entrepreneur should have passed at least school final/ matriculation and the project should be acceptable under the liberalised scheme of assistance of the SBI to small scale industries or else he should have undergone training under the bank's Entrepreneurial Development Programme. The total cost of the project should be above Rs. 25,000, assistance under the scheme is a minimum of Rs. 5000 and a maximum of Rs. 1 lakh. The actual amount of assistance is the difference between 25% of the total project cost and the capital available with the entrepreneur. The assistance is interest free and a moratorium is given for an initial period of 5 to 7 years for repayment. The minimum capital which the entrepreneur is expected to bring is nil if he has been financed under the SBI Entrepreneur Scheme, is 10% of the cost of the project if he is educated and is financed under the Bank's Liberalised Scheme and is 5% of the cost of the project where the entreprenurial has undergone training under the bank's Entrepreneurial Development Programme and is financed under the liberalised scheme. The loan under the equity fund scheme at

the end of December, 1983 amounted to Rs. 2.80 crores.

Government of India's Margin Money Scheme

10.7 The loan assistance provided by the Govt. of India to State Governments under the District Industries Centres Programme is used to cperate a seed/margin money scheme. Units in the tiny sector defined as those with an investment in plant and machinery upto Rs. 2 lakhs are eligible for assistance. The scheme covers all units falling within the purview of the Small Industries Development Organisation and village industries, handicrafts, handlooms, silk and coir industries. Assistance is given for setting up new units as also for undertaking any expansion/diversification programme provided the overall investment after such expansion/diversification remains within Rs. 2 lakhs. The extent of assistance is 10% of the total investment comprising of fixed capital investment, preoperative expenses and three months' working capital requirements or Rs. 20,000 whichever is less. For entrepreneurs belonging to scheduled castes and scheduled tribes, assistance is provided upto 15% of the total capital investment or Rs. 30,000 whichever is less. It has been left to the discretion of the State Governments to frame the terms and conditions of the loan but they have been advised to advance the margin/seed money on soft terms.

10.8 The existing schemes are limited in scope. The Government scheme covers units in the tiny sector and the State Bank of India equity assistance is restricted to entrepreneurs whose borrowings are exclusively from the State Bank of India. The pace of utilisation of special capital raised by SFCs has been rather slow. Only two years have elapsed since the liberalisation of the Seed Capital Scheme of the IDBI, hence it is rather early to assess the impact of the scheme.

10.9 The need to introduce a National Equity Fund has been felt since long. Funds available with the small scale entrepreneurs for establishing their units are limited. Further a substantial portion of their resources get spent in meeting pre-operative expenses. Under the circumstances they are left with little capital to provide margin to the banks to be able to obtain a loan. Reduced margin means reduced borrowings. Keeping the difficulties of small scale entrepreneurs in view several committees like the RS Bhat Committee (Committee on Development of Small and Medium Entrepreneurs), James Raj Committee (Committee on the functioning of Public Sector Banks) and Puri Committee (High Powered Committee for Examining Bank Credit Problems of SSI) have recommended the setting up of a National Equity Fund. This Committee is also of the opinion that the introduction of such a fund would be a step in the right direction to assist the tiny and small scale sector.

10.10 Government of India proposes to establish a National Equity Fund to be administered by the Industrial Development Bank of India. The Committee lends full support to the proposal. The broad features of a National Equity Fund as envisaged by the Government are as under:—

(a) Government would make an initial contribution of Rs. 10 crores towards the fund and the IDBI would make a matching contribution.

(b) Assistance from the fund would be routed through the primary lending institutions like banks, SFCs etc.

(c) While providing assistance to the borrowers from the fund, the primary lending institution will also make a matching contribution from out of its own resources. The details of the scheme and modalities concerning the operation of the fund are being worked out. In view of the growing importance of tiny, village and cottage industries from the employment potential angle, it is suggested that specific reference may be made in the scheme so that adequate attention be paid to financing of tiny, village and cottage industries out of this fund. The process of streamlining and liberalising is a continuous one as new areas emerge and experience is gained over time. The National Equity Fund will also undergo this cycle.

10.11 The Committee would like to place before the Government for its consideration the following suggestions with regard to the setting up of the National Equity fund:—

(1) In addition to new enterpreneurs establishing industries in the small scale sector including cottage and village industries assistance from the fund may be made available to groups of entrepreneurs who may have organised themselves as cooperatives or in any other legal form, including institutions registered under the Societies Registration Act.

(2) Eligibility for assistance may be widened to include units going in for rehabilitation and modernisation of their units.

(3) A minimum contribution from the promoter of not less than 5% of the project cost may be fixed so that he has a stake in the project.

(4) Minimum and maximum amounts of assistance to be sanctioned to a single unit may be specified.

(5) Assistance may be non-interest bearing and unsecured with a service charge of 1% per annum which could accrue half-yearly and be made payable after an initial moratorium of three years. The repayment of loan itself could be spread over a period of five years commencing after the term loan has been paid back.

(6) Banks and financial institutions eligible to draw on the fund may sanction limits on the basis of available funds and after calling for performance budget which may be prepared every year. A mid-term review may be undertaken every year and limits revised, if necessary.

10.12 The Committee recommends the setting of National Equity Fund as early as possible.

CHAPTER XI

APEX FINANCIAL INSTITUTION

11.1 Financial assistance is provided to the small and village industries sector by the Reserve Bank of India (RBI) through the network of commercial banks and by the Industrial Development Bank of India (IDBI) and the National Bank for Agriculture and Rural Development (NABARD) through primary lending institutions like State Financial Corporations (SFCs), banks etc. The RBI has included small scale industries and small business in the priority sector for the purposes of availing finance from the banks. The target of lending to the priority sector by the banks has been fixed by the RBI at 40 % and the banks have been further advised that advances to weaker sections should reach the level of 25% of priority sector advances or 10% of the total bank credit by the end of 1985. The weaker section includes all artisans, irrespective of the location of their units, and small industrial activities (manufacturing, processing, preservation and servicing) in village and small towns with a population not exceeding 50,000 involving utilisation of locally available natural resources and/or human skills where individual credit requirements do not exceed Rs. 25,000. Artisans and all persons engaged in village and cottage industries have been identified as beneficiaries under the New 20-Point Programme. The RBI has advised that banks should take care to see that viable schemes are formulated in consultation with the State agencies for all the beneficiaries under the 20-Point Programme, approved by the State agencies and adequate finance provided for their implementation. Bank finance is provided at concessional rates of interest for borrowers covered in the priority sector. Composite loans for equipment finance and working capital, upto Rs. 25,000 are provided by banks/SFCs, on very liberal terms to artisans, village and cottage industries. The weaker sections of society including persons engaged on a modest scale in the fields of cottage and rural industries are advanced loans at a concessional rate of 4% under the Differential Rate of Interest Scheme. RBI provides refinance facilities to cooperative banks for working capital loans to weavers' cooperative societies at a rate below the bank rate. Assistance from IDBI to small and medium enterprises is made available mainly through a scheme of indirect assistance by way of (a) refinance of industrial loans sanctioned by State Financial Corporations (SFCs), State Industrial Development Corporation (SIDCs), commercial banks/cooperatives and Regional Rural Banks, (b) rediscounting of bills for sale of indigenous machinery on deferred payment basis and (c) seed capital assistance to entrepreneurs by way of risk capital operated in association with SIDCs and SFCs. The National Bank for Agriculture and Rural Development provides refinance as well as direct loans and advances to State Cooperative Banks, Regional Rural Banks or to any financial institution or class of financial institutions which are approved by the RBI in this behalf for financing agricultural activities, artisans, small industries in the tiny and decentralised sector, village and cottage industries and those engaged in handicrafts and other rural crafts. The Industrial Finance Corporation is operating a number of promotional schemes to subsidize consultancy fees charged by the Technical Consultancy Organisations (TCOs) for preparation of feasibility reports, etc. required by small scale industrialists.

11.2 The available data on the financing of village and small scale industries sector was studied. It is obvious that the role played by existing institutions viz. the banks, the IDBI and the NABARD, in assisting and promoting the development of small scale industries is impressive. But it turns out that although the present quantum of assistance provided by banks and financial institutions and the increasing trend displayed in recent years is significant, the credit needs of this sector of industry are not being adequately met. The lacuna is more serious in the case of village and cottage industries in comparison with the small scale industry where the upper limit in terms of plant and machinery is Rs. 20 lakhs (Rs. 25 lakhs in the case of ancillaries). At present, bank finance and technical support are more readily available to the small scale sector. But the needs of the informal sector are quite large and complex and the existing institutions, with their diverse responsibilities, seem to have under-estimated the constraints and over-estimated the strength of the informal sector in mobilising organisaional support. There are serious and genuine problems of human attitudes when in the same organisation the needs of the entire spectrum of industries ranging from a gain with Rs 100 crores project to the tiniest unit requiring only a few thousand rupees are dealt with. Besides, the units in the tiny and the decentralised sector face several problems, finance being only one of them. The informal small scale industrial sector accounts for roughly one-third of production and one-half of the labour force employed in the manufacturing sectors. This sector not only requires adequate credit but also technical support programmes having a bearing on technical upgradation, product development, marketing, storage etc. Their problems are multi-dimensional and need coordination among several agencies.

11.3 The existing structure of credit organisation at best would appear to be only potentially adequate to meet the credit requirements of the informal and decentralised sector by reorienting their outlook, establishing the right priorities and bringing about necessary modifications in their statutes. The viability and the success of the units in the decentralised sector very

much depends upon the vigour with which the promotional and other organisations provide support to these units. The credit institutions today do not get closely involved with the supporting infrastructure as they may not be their direct clients. The thrust of NABARD is on the promotion and development of agricultural and rural development programmes. Its role in the servicing of small scale sector is limited in as much as it would be refinancing production and marketing activities of artisans and small scale industries in the tiny and the decentralised sector, and the village and cottage industries located in rural areas (defined as areas comprising of villages and towns in which the population does not exceed 10,000). Hence, NABARD's activities would not even cover fully the cottage and selfemployed industries in rural areas not to mention artisans and craftsmen in urban areas. The IDBI, on the other hand, is oriented more towards financing of large and medium scale industries. The size of the informal sector is so large and its geographical spread in the country so widely diffused that it is time we consider an alternative apex organisation with exclusive focus on this sector.

11.4 The decentralised sector is providing a large volume of employment and has the advantage of low overhead costs, local availability of labour and raw material and freedom from many negative features such as environmental pollution etc. Nevertheless, this sector does not have, as things stand today, the advantages of efficient technology, electrification of processes, informed management, trained and refined skills, custom oriented business, processing and packaging facilities and storage, transportation, marketing arrangements etc. In other words, employment oriented though the decentralised sector is, it has yet to achieve greater efficiency in inputs outputs and sales. In sum, the decentralised sector has the advantage of high initial employment per unit of capital but in general does not have the advantage of high output per unit of capital. Thus, with low productivity per unit of capital, this sector has low profitability and very small surpluses to be ploughed back into further expansion and this results in inadequate additional employment generation. It is obvious that the financing of the decentralised sector has to be undertaken with a view to increasing the productivity of this sector per unit of capital and hence surplus generation and additional employment generation. The Committee is convinced that a new philosophy of decentralised finance, new objectives for this finance and a new will for this purpose is the prime need of this sector.

11.5 On the other side, the small scale industrial sector is one of the most resilient sectors of the economy. This sector has been growing at a phenomenal pace and has the advantage of relatively high productivity per unit of capital, large surplus generation, large plough back into expansion and therefore large actual generation of employment. But this sector has yet to build into itself the advantage of scale economies, lower unit cost of production and large markets. This sector has a great potential of low cost exports to many parts of the country and can become a large foreign exchange earning sector even as some segments of the decentralised sector like handlooms, handicrafts, silk production etc. have a large export potential.

11.6 The Committee is convinced of the need to finance better and much more adequately the small scale sector as well as the decentralised sector and it agrees that as of today the financing of these sectors leaves a great deal to be desired.

11.7 The Committee has had the benefit of studying the report prepared by the Working Group set up by the RBI in 1979, at the instance of the Government of India, to go in to the question of establishing an apex financial institution to meet the credit requirements of village and tiny (decentralised) sector of industry. The Group had made a recommendation for the setting up of such an institution for coordinating the working of institutions engaged in financing, promoting and developing industries in the tiny and the decentralised sector, for assisting the development of institutions to provide credit and other facilities for setting up industries in these sectors and providing appropriate finance and refinance facilities to such industries. However, the Committee saw clearly that if the new apex institution were to support only the decentralised sub-sector, then the very deserving needs of a most resilient sub-sector, namely the small scale industry (SSI) would remain less attended and the country would lose the advantage of the full development of this sub-sector. On the other hand, if the apex organisation were to cater to the decentralised as well as the SSI sub-sector, the former has serious apprehensions that all attention would be snatched away by the latter and that the decentralised sector would continue to languish. The Committee therefore felt the need for having two separate apex institutions to provide financial, technical and organisational support and refinancing one for each of the two wings of small industries. These comprehend on the one hand the decentralised sector (which includes activities such as Khadi, Handlooms, Sericulture, Coir, Handicrafts etc.) and on the other the SSI sector defined as comprising of units having investment in plant and machinery not exceeding Rs. 20 lakhs and ancillaries not exceeding Rs. 25 lakhs. The Committee noted that the creation of a full fledged apex institution with a credit delivery system, refinancing ability and technical specialisation is, at best, bound to take time and, at worst, difficult to create, and as the IDBI and the NABARD are quite capable of meeting the needs of the small scale industries and the decentralised industries respectively, the Committee recommends for immediate action, the creation of two separate specialised apex units, one under the umbrella of the IDBI to support the SSI and the other under the wings of NABARD to support the decentralised industry.

11.8 The Committee agrees that any business unit in any category of industry must have more than one alternative source of finance and should in no case be constrained to obtain finance from just a single source. Multiple financing possibility is an essential feature of all financial intermediation in developing

and developed economies and the Committee accepts this basic proposition. Even when the IDBI has a specialised unit within its fold for the sake of small scale industry, this apex unit shoud continue to provide financial, technical and other support to the decentralised sector. The same would be true of the specialised unit within NABARD which could finance and support such small scale industries as are located in rural areas. The Committe agrees that eventually with experience and structural changes coming in society and the small scale industry as well as the decentralised industry more fully imbibing the industrial culture, the two apex units mentioned above could eventually merge into an independent apex body.

11.9 The Committee has recommended elsewhere the fixing of financial and other targets for the decentralised sector, as there is some evidence that these industries do not get all the finance that they deserve. The Committee also recommends carmaking of certain volumes of funds for the decentralised and the tiny industries. Even as the farming community has obtained considerable benefit from the scheme of lower interest rates, the question of providing loans at lower interest rates to the decentralised and the tiny sectors should be considered favourably. Some of the disabilities of the decentralised sector, it is felt, could be removed if the representatives of the decentralised sector could be involved in the decision-making bodies.

ANNEXURES

ANNEXURE I

Composition and Terms of Reference of Groups I, II and III

GROUP I

1. Shri A.M. Thomas, Chairman, Khadi & Village Industries Commission, Bombay.
2. Shri S.M. Palia, General Manager, I.D.B.I., Bombay.
3. Shri Ravindra Gupta, Director of Industries, Uttar Pradesh, Kanpur.
4. Shri Abhay Rath, Director of Industries, Government of Orissa, Cuttack.
5. Dr. M.R. Kotdawala, Chief Officer, Rural Planning & Credit Department, RBI, Bombay.
6. Shri A. Sathyamoorthy, General Manager, NABARD, Bombay.
7. Shri D. Mehta, Joint Secretary (F), Ministry of Rural Development, New Delhi.
8. Shri Gyan Prakash, Joint Development Commissioner (Handicrafts), New Delhi.
9. Shri Brahm Dutt, Joint Development Commissioner (Handlooms), New Delhi.
10. Shri K.V.S. Murthi, Adviser (V& SI), Planning Commission, New Delhi.
11. Shri V.K. Dar, Development Commissioner, (Small Scale Industries), New Delhi.
12. General Manager, DIC, Gulbarga (Karnataka).
13. Shri Harbhajan Singh, Chief Officer, SI&SB Banking Deptt., SBI, Bombay *Convenor.*

Terms of reference

To review the current operations, policies and procedures of the various credit facilities extended by banks and other agencies/institutions and to examine its adequacy and to recommend streamlining of the system with particular reference to khadi and village industries.

GROUP II

1. Shri A. Sathyamoorthy, General Manager, NABARD, Bombay.
2. Dr. M.R. Kotdawala, Chief Officer, Rural Planning & Credit Department, R.B.I., Bombay.
3. Shri K.K. Saksena, General Manager, Deposit Insurance & Credit Guarantee Corpn., Bombay.
4. Shri S.B. Jain, Additional Secretary, Ministry of Industry, New Delhi.
5. Shri S.K. Govil, Consultant, Planning Commission, New Delhi.
6. Shri Amarjeet Singh, Director of Industries, Government of Punjab, Chandigarh.
7. Shri T.L. Shankar, Secretary (Industries), Government of Andhra Pradesh, Hyderabad.
8. Shri S.R. Kokoddar, Director (Industires), Government of Maharashtra, Bombay.
9. Shri P.H. Trivedi, Secretary, North Eastern Council, Ministry of Home Affairs, Shillong.
10. Shri E.J. Vaz, Chariman, COSICI, New Delhi.
11. Shri Harbhajan Singh, Chief Officer (SI & SB Banking Department), State Bank of India, Bombay.
12. Shri H.R. Verma, Joint Adviser (V&SI), Planning Commission, New Delhi.
13. Shri R.P.S. Verma, Economic Adviser, Office of the D.C. (SSI), New Delhi.
14. Shri K.P. Geetakrishnan, Joint Secretary (Plan Finance), Ministry of Finance, New Delhi.
15. Dr. S.A. Dave, Executive Director, IDBI, Bombay *Convenor.*

Terms of reference

To suggest suitable guidelines on delegation of authroity, implementation procedures and monitoring of financial institutions/implementing agencies and to examine(a) the need for an apex financial institution for small scale industries, and (b) National Equity Fund for Small Scale Industries.

GROUP III

1. Dr. P. Asthana, Deputy General Manager, I.D.B.I., Bombay.
2. Shri C.G. Krishnamurthi, General Manager, NABARD, Bombay.
3. Shri Brahm Dutt, Joint Development Commissioner, Handlooms, New Delhi.

4. Shri Harbhajan Singh, Chief Officer (SI&SB Banking Department), S.B.I. Bombay.
5. Shri D. Sundersan, Chief (Credit Wing), Canara Bank, Bangalore.
6. Shri R.L. Pardeep, Chief Executive Officer, K.V.I.C.. Bombay.
7. Shri Munna Lal Goel, Director (Industries), Government of Rajasthan. Jaipur.
8. Shri K. Ramachandran, Director of Industries, Government of Kerala, Trivandrum.
9. Shri S. Sivasubramaniam, Director of Industries, Government of Tamil Nadu, Madras.
10. Shri Ashok Chandra, Joint Secretary, Department of Economic Affairs (Banking Division), New Delhi.
11. Dr. M.R. Kotdawala, Chief Officer, Rural Planning and Credit Deptt., RBI. Bombay.
12. Shri S.B. Jain, Additional Secretary, Ministry of Industry, New Delhi.
13. General Manager, DIC, Ranchi.
14. Shri H.R. Verma, Joint Adviser (V&SI), Planning Commission, New Delhi.
15. Shri R.P.S. Verma, Economic Adviser, Office of the DC (SSI), New Delhi.
16. Shri K.P. Geetakrishnan, Joint Secretary (Plan Finance), Ministry of Finance, New Delhi.
17. Shri D.N. Davar, Executive Director, IFCI, New Delhi—*Convenor*.

Terms of reference

To review the functions of various promotional and financial institutions in relation to the village and small industries and to suggest arrangements for coordination and simplification of procedures with special references to khadi, village and small industries.

ANNEXURE II

Copy of D.O. letter No. 18(5)/82—VSI dated the 29th September, 1983 addressed by the Chairman, Prof. A.M. Khusro, Member Planning Commission to Ministers of Industries of State Governments.

Subject:—*Credit Facilities for the village and small industries sector.*

Credit is one of the crucial factors for the development of the decentralised sector. The difficulties experienced by small industries in obtaining credit facilities from the various institutions were discussed in the meetings of the All India Small Scale Industries Board. The Board has recommended that a committee on credit facilities may be established by the Planning Commission to examine the entire gamut of financing of village and small industries sectors. As a sequel to this recommendation, a Committee on Credit Facilities for the Village and Small Industries Sector has been established by the Planning Commission under my Chairmanship. A copy of the Terms of Reference and the Composition of this Committee is enclosed.

2. The development of the village and small industries is the primary responsibility of the State Governments. The Central Government supplements the efforts of the States wherever necessary. The problems of the decentralised sector are so varied that the experience of the State Governments in formulating and implementing the schemes and programmes should provide the Committee the essential feed-back information for identifying the lacunae that exist currently and the measures needed to tackle the issues. The Committee would naturally like to draw upon the rich experience and the specialised expertise of the State Governments on some of the vital aspects having a bearing on the Terms of Reference of the Committee. This is the main reason which has prompted me to seek your valued cooperation. The Committee will be very much obliged if you can provide us with information on the following:

(a) DICs have been established in all the States as a nodal agency at the district level and each DIC has a separate manager for credit. To give a push to the programme, initially, the credit managers have been drawn from the lead bank of the district so as to draw upon their expertise. A note giving the performance of all the DICs incorporating relevant details such as number of units assisted in the districts, new units established, yearwise for the last five years as in the statement given below may be sent to us:

Year (1979-80 to 1983-84)	Number of units assisted (excluding new units)	New units assisted	Limit of credit sanctioned	Credit disbursed	Amount of credit outstanding.

(b) We would like to know which district among all has come out with the best performance, in your assessment, and what are the factors that have made this possible? The performance of this district may be indicated as in the table given above.

(c) Has any evaluation been made of the performance of the State Financial Corporations and Industrial Development/Infrastructural Corporations, with specific reference to the dispersed industries? If so, a note on the findings and/or their performance may be sent to us, backed up with statistical and financial details covering, *inter alia*, the following:

(Rs./lakhs)

Year (1979-80 to 1983-84)	Sanctions		Disbursement Amount
	Number	Amount	

(d) What is the credit plan for the dispersed industries for the different districts for 1978-1983 (Yearwise) and what has been their performance in respect of the individual schemes falling within the purview of the village and small industries? For example, small scale industries, khadi, village industries, coir, handlooms, handicrafts, sericulture, service sector etc? What is the creidt plan for these industries for the period 1983-1985?

(e) Similar information as sought in (d) above may be provided with regard to State Financial Corporations/State Industrial Development/Infrastructure Corporations.

(f) The mechanism adopted for monitoring by the State Level Committees to review the district credit plan and the suggestions of the Government for initiating remedial action wherever necessary may be elaborated.

(g) What is the dissemination procedure adopted so that all important functionaries dealing with credit are aware of the various programmes and schemes being formulated and implemented from time to time?

(h) Has any survey been made on the extent of sickness prevalent in the small scale industries? If so, the findings of the studies along with the progress of the margin money scheme being operated by the DIC may be sent.

(i) Have any administrative problems impeding the flow of credit to the decentralised sector been identified? If so, the same may be listed alongwith your suggestions.

(j) Note on programmes/schemes being implemented by the State Governments in addition to Central Programmes like IRD, DRI, etc., and the manner in which these have been integrated.

(k) To facilitate flow of credit in your opinion what are the powers to be delegated to the different credit functionaries at the sub-office/district levels?

(l) A note listing the impediments hampering the smooth credit flow to the decentralised sector and your suggestion for streamlining administrative and other procedures that may be necessary.

(m) A note on the functions which the different agencies like SISIs/DICs, State Directorate of Industries, etc. should perform to facilitate easy flow of credit may be given.

(n) What are your views regarding the establishment of a National Equity Fund? Give suggestions regarding organisational frame work, mode of financing and the manner of operation to enable the Committee to deliberate on this issue.

(o) How many entrepreneurs have availed assistance under the seed capital and special capital scheme of the IDBI being operated through the SIDCs, SFCs etc. with the assistance of the DICs? Do you have any suggestions for attracting greater flow of funds under these schemes and the role envisaged for the State Governments?

(p) As the State Governments are interested in defining industrially backward areas in terms of 'block' as a unit for extension of financial incentives, information relating to concessional finance facilities extended by term-lending institutions and Central Investment Subsidy (and Transport Subsidy) disbursed to units, yearwise may be given. This information may be supplied blockwise since the inception of the schemes to enable assessment of the level of industrial development that has taken place and the nature of incentives which may be necessary. Problems if any encountered in the process of disbursement including streamlining of administrative procedures may be highlighted.

(q) A detailed note on any other issues related to the flow of credit which you may like the Committee to consider.

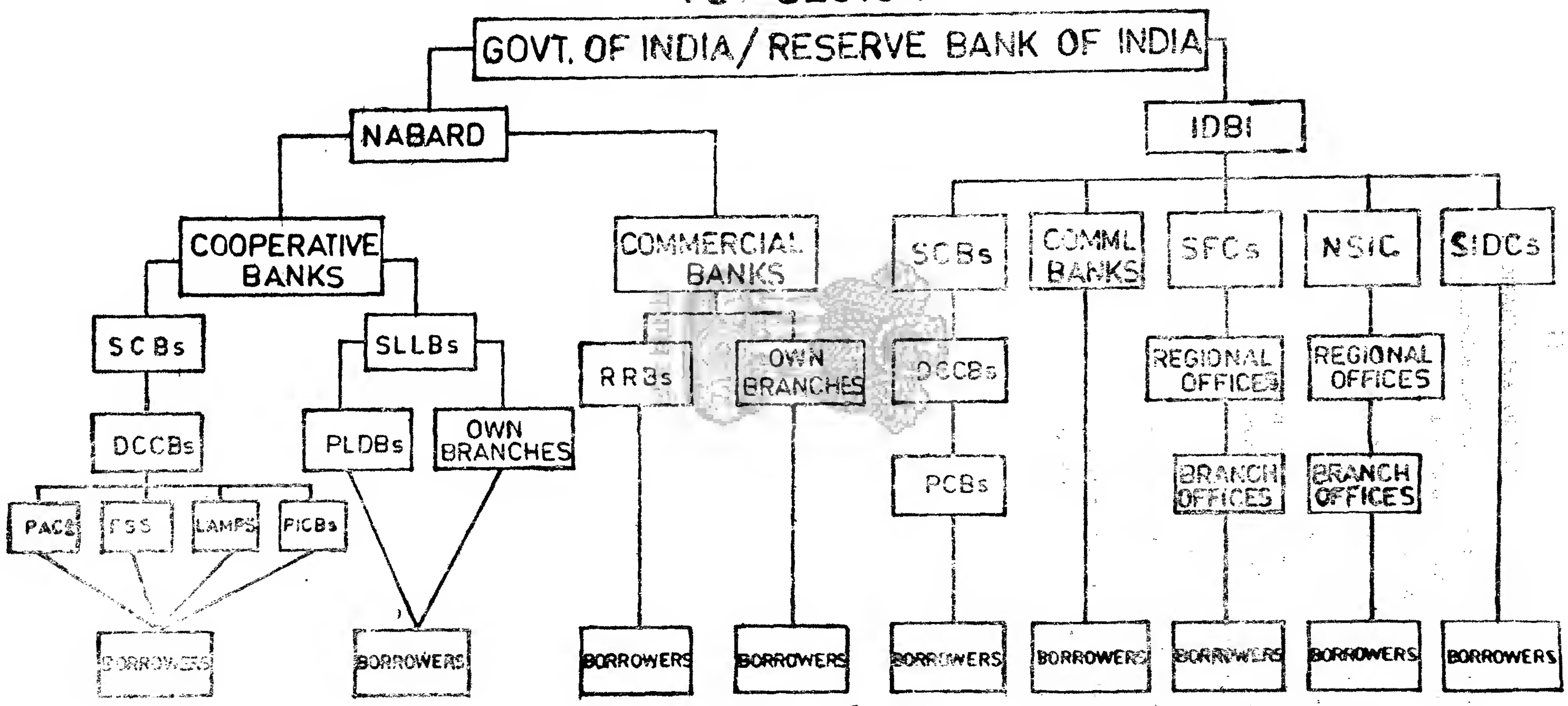
3. I shall very much appreciate if the above information is sent to me in duplicate and a copy sent directly to the Member-Secretary of the Committee by 15th November, 1983. With regards,

Yours sincerely

(A. M. KHUSRO)

ANNEXURE - II-A

CHART OF INSTITUTIONAL CREDIT DELIVERY SYSTEM TO VSI SECTOR



NOTE: For abbreviations please see next page

KEY TO ABBREVIATIONS

NABARD	—	National Bank for Agriculture and Rural Development.
IDBI	—	Industrial Development Bank of India.
SCBs	—	State Cooperative Banks.
DCCBs	—	District Central Cooperative Banks.
PCBs	—	Primary Cooperative Banks.
SFCs	—	State Financial Corporations.
SIDCs	—	State Industrial Development Corporations.
NSIC	—	National Small Industries Corporation.
SLDBs	—	State Land Development Banks.
PLDBs	—	Primary Land Development Banks.
PACS	—	Primary Agricultural Credit Societies.
FSS	—	Farmers Service Societies.
LAMPS	—	Large-Sized Multipurpose Societies.
PICBs	—	Primary Industrial Cooperative Banks.

ANNEXURE III

Refinance assistance availed of by eligible Banks from NABARD Under Industries, Services and Business component of IRDP for the period 1st January 1983 to 30th June, 1983

(Rs. lakhs)

State/Union Territory	Industries	Services	Business	Unclassified	Total
1. Andhra Pradesh	9.94	10.39	11.47	..	31.00
2. Assam & Other N.E. States	..	..	..	..	..
3. Bihar	135.46	114.40	351.85	95.90*	697.61
4. Gujarat	1.49	6.65	3.73	..	11.87
5. Goa	..	0.24	..	..	0.24
6. Haryana	..	1.32	0.91	..	2.23
7. Himachal Pradesh	..	..	..	..	..
8. Jammu & Kashmir	..	..	..	..	
9. Karnataka	0.71	0.73	1.14	..	258
10. Kerala	0.25	0.64	0.92	..	1.81
11. Maharashtra	0.03	..	..	..	0.03
12. Madhya Pradesh	1.83	3.31	..	..	5.14
13. Orissa	43.47	14.15	106.00	..	163.62
14. Pondicherry	0.11	0.30	0.02	..	0.43
15. Punjab	3.57	4.19	22.00	..	30.64
16. Rajasthan	6.44	10.93	0.66	13.93*	31.96
17. Uttar Pradesh	91.15	114.40	294.65	..	500.20
18. Tamil Nadu	2.16	6.13	7.86	..	16.15
19. West Bengal	3.30	0.91	1.07	..	5.20
TOTAL	299.91	288.77	803.16	109.83	1501.67

**Break up data are awaited.*

Source: NABARD

ANNEXURE IV

Composite Loans sanctioned by SFCs/SIDCs/Banks and Refinanced by IDBI for the Years 1979-80 to 1982-83 (April—March)

(Rs. in lakhs

Name of the Institution SFCs/SIDCs/Banks	1979-80		1980-81		1981-82		1982-83		Cumulative upto March, 1983	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
1	2	3	4	5	6	7	8	9	10	11
APSFC	10	1.94	69	13.10	3	0.53	56	11.38	138	26.95
AFC	..	..	..	..	2	0.13	6	0.40	8	0.53
BSFC	..	..	..	..	51	10.47	286	25.55	337	36.02
DFC	..	..	..	..	..	..	..	..	..	..
GSFC	..	..	..	..	..	..	24	0.83	24	0.83
HFC	84	14.72	104	18.66	29	4.89	14	2.44	231	40.71
HPFC	..	..	..	..	4	0.71	7	1.42	11	2.13
JKSFC	11	1.25	12	1.08	21	4.34	154	21.53	198	28.50

1	2	3	4	5	6	7	8	9	10	11
KASFC	..	..	36	5.97	50	7.25	122	18.29	208	31.51
KFC	..	..	..	..	1	0.25	..	..	1	0.25
OSFC	625	37.83	697	29.41	5656	223.80	1260	91.32	8238	382.36
MPFC	..	..	..	..	22	4.60	61	11.93	83	16.53
PFC	..	..	..	..	55	11.89	32	6.77	87	18.66
MSFC	..	..	95	12.82	134	20.13	263	35.74	492	68.69
RFC	..	..	38	1.92	180	36.06	263	36.66	481	74.71
TIIC	..	..	43	8.03	40	7.96	19	3.84	102	19.83
UPFC	536	103.49	1721	316.44	3830	542.40	2474	323.48	8561	1285.81
WBFC	..	..	..	..	46	6.58	615	68.52	661	75.10
Sikkim IDC	..	..	..	..	9	1.69	5	0.92	14	2.61
Arunachal Pradesh IDFC	..	..	..	..	..	..	5	0.80	5	0.80
PIPDIC	..	..	17	1.46	38	4.86	70	6.62	125	12.94
Total SFCs/SIDCs	1266	159.23	2832	408.96	10171	888.54	5736	668.44	20005	2125.17
Allahabad Bank	..	..	..	..	1	0.15	46	46.75	47	46.90
Andhra Bank	510	6.32	321	12.04	424	40.00	331	30.57	1586	88.93
Bank of Baroda	46	1.31	100	3.12	58	2.67	157	5.25	361	12.35
Bank of India	9	1.10	18	0.71	8	0.55	55	6.67	90	9.03
Bank of Maharashtra	1	0.14	1	0.06	7	1.26	29	0.94	38	2.40
Canara Bank	2	0.22	7	1.06	12	1.49	7	1.02	28	3.79
Central Bank of India	77	4.29	331	18.58	17	2.61	5	0.70	430	26.18
Dena Bank	..	..	..	..	1	0.03	..	..	1	0.03
Corporation Bank	3	0.09	14	0.33	2	0.16	..	..	19	0.58
Indian Bank	2	0.35	3	0.31	36	1.74	463	17.43	504	19.83
Indian Overseas Bank	12	1.30	29	3.55	29	2.43	4	0.30	74	7.58
New Bank of India	9	1.11	28	4.28	16	2.25	3	0.70	56	8.34
Oriental Bank of Commerce.	..	..	..	..	..	..	..	..	..	..
Punjab National Bank	3	0.08	51	4.86	57	6.68	30	2.40	141	14.02
Punjab & Sind Bank	..	..	..	..	..	..	..	..	..	..
Syndicate Bank	46	3.81	289	20.44	636	44.35	947	73.88	1918	142.48
Union Bank of India	152	9.02	81	8.25	99	14.12	99	13.67	431	45.06
United Bank of India	..	..	..	..	1	0.19	1	0.07	2	0.26
United Commercial Bank	2	0.28	1	0.10	..	..	2	0.40	5	0.78
Vijaya Bank	..	..	..	..	4	0.39	2	0.35	6	0.74
State Bank of India	12	0.98	75	4.06	154	9.51	157	12.54	398	27.09
State Bank of Hyderabad	..	..	..	..	29	1.61	467	16.39	496	18.00
State Bank of Bikaner & Jaipur.	..	..	..	..	..	..	..	..	..	..
State Bank of Indore	..	..	..	..	..	..	..	..	..	..
State Bank of Mysore	..	..	4	0.64	16	0.76	7	0.17	27	1.57
State Bank of Patiala	..	..	1	0.10	23	0.19	..	..	24	0.29
State Bank of Saurashtra	..	..	..	..	..	..	..	..	..	..
State Bank of Travancore	..	..	..	..	7	0.97	1	0.10	8	1.07
Other Banks	77	67.64	1137	25.85	5345	103.86	6729	135.46	13288	332.81
TOTAL BANKS	963	98.04	2491	108.34	6982	237.97	9542	365.76	19978	810.11
GRAND TOTAL	2229	257.27	5323	517.30	17153	1126.51	15278	1034.20	39983	2935.28

ANNEXURE V

Scheduled Commercial Banks—Advances to Small Scale Industries, 1974—82

(No. of A/cs. in '000)
(Amt. in Rs. crores)

As on Last Friday	No. of accounts	Balance outstanding	(3) as % of Total priority sector advance	(3) as % of value of production of SSI.
1	2	3	4	5
December, 1974	224	1017	48	11.0
December, 1975	269	1147	44	10.4
December, 1976	397	1421	42	11.5
December, 1977	477	1703	41	11.9
December, 1978	558	2156	40	13.7
December, 1979	681	2633	39	12.2
December, 1980	794	3136	38	11.2
December, 1981	960	3953	37	12.1
December. 1982*	1044	4433	36	12.7

*Provisional.

Source: Reserve Bank of India, Bombay.

ANNEXURE VI

Supply of credit to industrial sector by scheduled commercial banks.

(Rs. millions)

	March 1968	June 1978	June 1979	June 1980	June 1981	June 1982	June 1983*
1. Total bank credit (including food credit) . .	30640	159160	191630	213120	258880	297750	354600
2. Total outstanding bank credit to all industries .	20680	76100	89630	102360	133890	151220	179810
	(67.5)	(47.7)	(46.8)	(48.0)	(51.8)	(50.8)	(50.7)
3. Outstanding credit to medium and large industries .	18570	57620	66860	77020	99830	112130	134180
	(60.6)	(36.1)	(34.9)	(36.1)	(38.6)	(37.7)	(37.8)
4. Outstanding credit to small scale industries . .	2110	18480	22770	25340	34060	39090	45630
	(6.9)	(11.6)	(11.9)	(11.9)	(13.2)	(13.1)	(12.9)

*Provisional.

Figures in bracket indicate percentage to total:

Source: Report on Currency and Finance, 1981-82—RBI.
Report on Currency and Finance, 1982-83—RBI.

ANNEXURE VII

Loans and advances of scheduled commercial banks to Small Scale Industries

—No. of units in thousands
—Amt. in crores of rupees

	As at end December							
	1979		1980		1981*		1982*	
	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount	No. of Units	Amount
1. Artisans, village and cottage industries	296 (43.5)	51.44 (1.9)	346 (43.6)	69.38 (2.2)	432 (45.0)	98.42 (2.5)	439 (41.8)	109.85 (2.5)
2. Tiny sector units	113 (16.6)	165.36 (6.3)	148 (18.6)	203.25 (6.5)	152 (15.8)	209.74 (5.3)	156 (14.9)	249.79 (5.6)
3. Other small scale units	272 (39.9)	2415.97 (91.8)	300 (37.8)	2863.85 (91.3)	377 (39.2)	3644.93 (92.2)	455 (43.3)	4104.68 (91.9)
4. Total loans and advances to small scale units.	681 (100.0)	2632.77 (100.0)	794 (100.0)	3136.48 (100.0)	961 (100.0)	3953.09 (100.0)	1050 (100.0)	4464.32 (100.0)

*Provisional.

Source: RBI. Bombay.

ANNEXURE VIII

State Financial Corporations—Assistance to Village & Small Industries

(Rs. in crores)

(Period: April-March)

	Total Assistance Sanctioned		SSI Assistance (Not SRTOs)		% of column 4 to column 2	Total assistance disbursed.	SSI assistance (excluding SRTOs)	% of column 7 to column 8
	No.	Amount	No.	Amount				
	1	2	3	4	5	6	7	8
1978-79	9463	200.73	7248	118.31	58.9	134.98	82.17	60.9
1979-80	17816	263.82	15278	166.30	63.1	184.75	114.08	61.7
1980-81	28915	370.54	26447	254.41	68.7	247.96	153.39	61.9
1981-82	32048	509.56	28178	263.47	71.3	317.72	230·71	66.3
1982-83	33811	590.20	28510	436.95	74.0	404.22	290.17	71.8
Cumulative upto end March 1983.	180674	2919.69	145877	1872.82	64.1	2038.53	1276.37	62.6
Annual Average rate of growth during 1978-79 to 1982-83.		48.51%		67.33%		49.86%	63.28%	

Source: Report of Development Banking in India 1982-83.

ANNEXURE IX

Small Scale Industries: Outstanding Credit of Schedule Commercial Banks

according to size of credit limit, June, 1981

(Rs. in lakhs)

	Range of Credit Limit	Total Credit	Of which to SSI	%age to total SSI
1.	Rs. 10,000 & less	3553,07	117,95	3.84
2.	Above Rs. 10,000 & upto Rs. 25,000	870,31	151,21	4.92
3.	Above Rs. 25,000 & upto Rs. 50,000	1294,49	235,68	7.68
4.	Above Rs. 50,000 & upto Rs. 1 lakh	1435,55	361,54	11.78
5.	Above Rs. 1 lakh & upto Rs. 5 lakhs	2960,35	1119,10	36.48
6.	Above Rs. 5 lakhs & upto Rs. 10 lakhs	1210,28	448,71	14.62
7.	Above Rs. 10 lakhs & upto 25 lakhs	1937,00	370,18	12.06
8.	Above Rs. 25 lakhs & upto Rs. 50 lakhs	1196,28	156,96	5.11
9.	Above Rs. 50 lakhs & upto Rs. 1 crore	1790,04	33,06	1.07
10.	Above Rs. 1 crore & upto Rs. 2 crores	1654,56	34,87	1.13
11.	Above Rs. 2 crores & upto Rs. 3 crores	813,26	6,93	0.22
12.	Above Rs. 3 crores & upto Rs. 5 crores	950,65	9	0.003
13.	Above Rs. 5 crores & upto Rs. 10 crores	1025,22	7,61	0.24
14.	Above Rs. 10 crores	3487,42	14,15	0.46
15.	Composite Limit & unclassified	45,28	9,74	0.31
	TOTAL . . .	24874,76	3067,78	99.56

Source: Basic Statistical Returns of Reserve Bank of India (Credit Planning Cell).

ANNEXURE X

List of Village Industries

1. Bee-keeping.
2. Cottage match, manufacture of fireworks and agarbatti.
3. Cottage Pottery Industry.
4. Cottage Soap Industry.
5. Flaying, curing and tanning of hides and skins and Ancillary industries connected with the same and Cottage leather industry.
6. Ghani Oil Industry.
7. Handmade paper.
8. Manufacture of cane gur & khandsari.
9. Palmgur making and other palm product industry.
10. Processing, packaging and marketing of cereals, pulses, spices, condiments, masalas, etc.
11. Manufacture and use of manure, methane gas from cow dung and other waste products (such as flesh of dead animals, night soil, etc
12. Lime stone, lime shell and other lime products.
13. Manufacture of shellac.
14. Collection of forest plants and fruits for medicinal purposes.
15. Fruit and vegetable processing, preservation and canning, including pickles.
16. Bamboo and cane work.
17. Blacksmithy.

12—2 PC/ND/87

18. Carpentry.
19. Fibre (other than coir).
20. Manufacture of household utensils in aluminium.
21. Manufacture of katha.
22. Manufacture of gums and resins.
23. Manufacture of Lokvastra.
24. Manufacture of Polyvastra.
25. Processing of maize and ragi.

ANNEXURE XI—A

Borrowings of small-scale units according to type of organisation.

(Rs. millions)

Type of organisation	Estimated distribution of units (Number)	Institutional credit (Rs.)	Non-institutional credit (Rs.)	Total credit (Rs.)
1. Proprietary	159183 (68.23)	2709.9 (18.2)	737.7 (12.0)	3447.6 (16.4)
2. Partnership	64717 (27.74)	7623.3 (51.1)	3837.6 (62.5)	11460.9 (54.4)
3. Private Limited Companies	7366 (3.18)	3958.3 (26.5)	1426.8 (23.3)	5385.1 (25.6)
4. Others	1955 (0.85)	635.1 (4.2)	134.7 (2.2)	769.8 (3.6)
TOTAL	233221 (100.0)	14926.6 (100.0)	6136.8 (100.0)	21063.4 (100.0)

Notes: 1. Figures in brackets are percentages to total.
2. Data relate to the units assisted by banks.

ANNEXURE XI—B

Distribution of the outstanding borrowings of the small -scale units according to the size of the original value of plant and machinery.

Size of units in terms of investment in plant and machinery (Rs.)	Percentage distribution of units	Total value of output	Total employment	Institutional loans*
Less than 1,00,000	89.0	44.1	61.0	31.1
1,00,000—2,00,000	5.0	17.3	11.7	17.2
2,00,000—5,00,000	3.9	18.3	12.7	22.7
5,00,000—10,00,000	1.8	15.1	11.8	22.5
Above 10,00,000	0.3	5.2	2.8	6.5
	100.0	100.0	100.0	100.0

*Institutional loans comprise the outstanding loans of the unit at the end of the latest accounting year owed to

(1) Commercial banks, (2) Co-operative banks and societies, (3) Government, (4) State Financial Corporations,

(5) National/State Small Industries Corporations, (6) State Industrial and Investment Corporations, and (7) Other Institutional agencies not classified under the above categories.

Source: Survey of Small-Scale Industrial Units, 1977—Reserve Bank of India.

(Survey conducted during 1977-78).

ANNEXURE XII

List of XXII Broad Groups of Industrial Cooperatives (other than weavers' societies) eligible for refinance from the Reserve Bank of India through the Cooperative Banks for production and marketing.

I. Flaying and Tanning.

II. Leather Goods.

1. Footwear Making.
2. Manufacture of other leather products.
3. Artistic Leather Works.
4. Cobblers and Charmaker.

III. Pottery

1. Pottery (including Village Pottery).
2. Decorative Pottery.

IV. Handpounding of Paddy and Cereals.

V. Rice Mills including Flour Mills and Bakeries.

VI. Oil Crushing.

1. Village Oil (Ghani).
2. Non-edible oil.

VII. Palm Gur

1. Palm Sugar
2. Neera

VIII. Cane Gur and Khandsari.

1. Gur
2. Khandsari

IX. Canning of Fruits and Vegetables

X. Manufacturing and Processing of Agricultural and Marine Products and Forest Produce including Beverage Industries.

XI. Other Village Industries.

1. Carpentry and Blacksmithy.
2. Bee-Keeping.
3. Honey and Honey .Products.
4. Hand-made Paper
5. Fibre and Rope Industry
6. Cottage Match.
7. Miscellaneous Village Industries.
   (i) Kuteer Gramodyog.
   (ii) Haddi Khad.

XII. Handicraft Industries.

1. Applique Workers.
2. Bangle and Beads.
3. Bidri
4. Cane and Bamboo.
5. Carpets, Druggets, Cables and Floor Coverings (Artistic other than Coir).
6. Hand Printing and Dyeing.
7. Embroidery.
8. Jewellery, Filligree work, Gold and Silver Wares.

9. Iron, Shell and Horn Works.
10. Churi Utpadak.
11. Musical Instruments.
12. Stone Carving.
13. Toys and Dolls.
14. Wooden Combs.
15. Traditional Artistic Weaving.
16. Artistic Fibre, Grass and Leaf Products.
17. Papier Machine.
18. Artistic Wood Works.
19. Basket Making
20. Mat Making.
21. Broom Making.
22. Ornaments Making.
23. Art Plate Manufacture.
24. Kankan Making.
25. Fine Arts and Crafts.
26. Jari Work.
27. Calico Printing.
28. Lac and Lacquer Ware.

XIII. General Engineering

1. Umbrella Handles.
2. Tasar.
3. Conduit Pipe manufacture.
4. Foundries.
5. Non-ferrous Metal works.
6. Steel trunks.
7. Sheet Metal Work.
8. Locks.
9. Cutlery.
10. Metal Rolling.
11. Hardware.
12. Aluminium Goods.
13. Bostal Seals.
14. Brass Copper and Bell Metal Works.
15. Agricultural Implements.
16. Sewing machines.
17. Beam Scales.
18. Electrical Accessories.
19. Radio Accessories.
20. Motor Parts manufacture.
21. Bicycle Parts manufacture.
22. Brush making.
23. Mechanical toys.
24. Tin Smithy.
25. Tools manufacture.

26. Assembly Works.
27. Scientific Apparatus.

XIV. Chemical Engineering and Chemical Industries

1. Match Factories, Fire Works.
2. Pharmaceuticals.
3. Soap Making.
4. Perfumery.
5. Dhoop
6. Boot Polish.
7. Ink Manufacture.
8. Salt
9. Soda
10. Glassware
11. Rubber Goods.
12. Plastic Goods.

XV. Construction Materials

1. Stone Crushing.
2. Quarrying.
3. Concrete goods.
4. Bricks and Tiles.
5. Marble works.
6. Lime

XVI. Sericulture

XVII. Coir

XVIII. Spinners' Societies.

XIX. Cotton Textiles and other Textiles.

XX. Printing, Book-binding and Lithography.

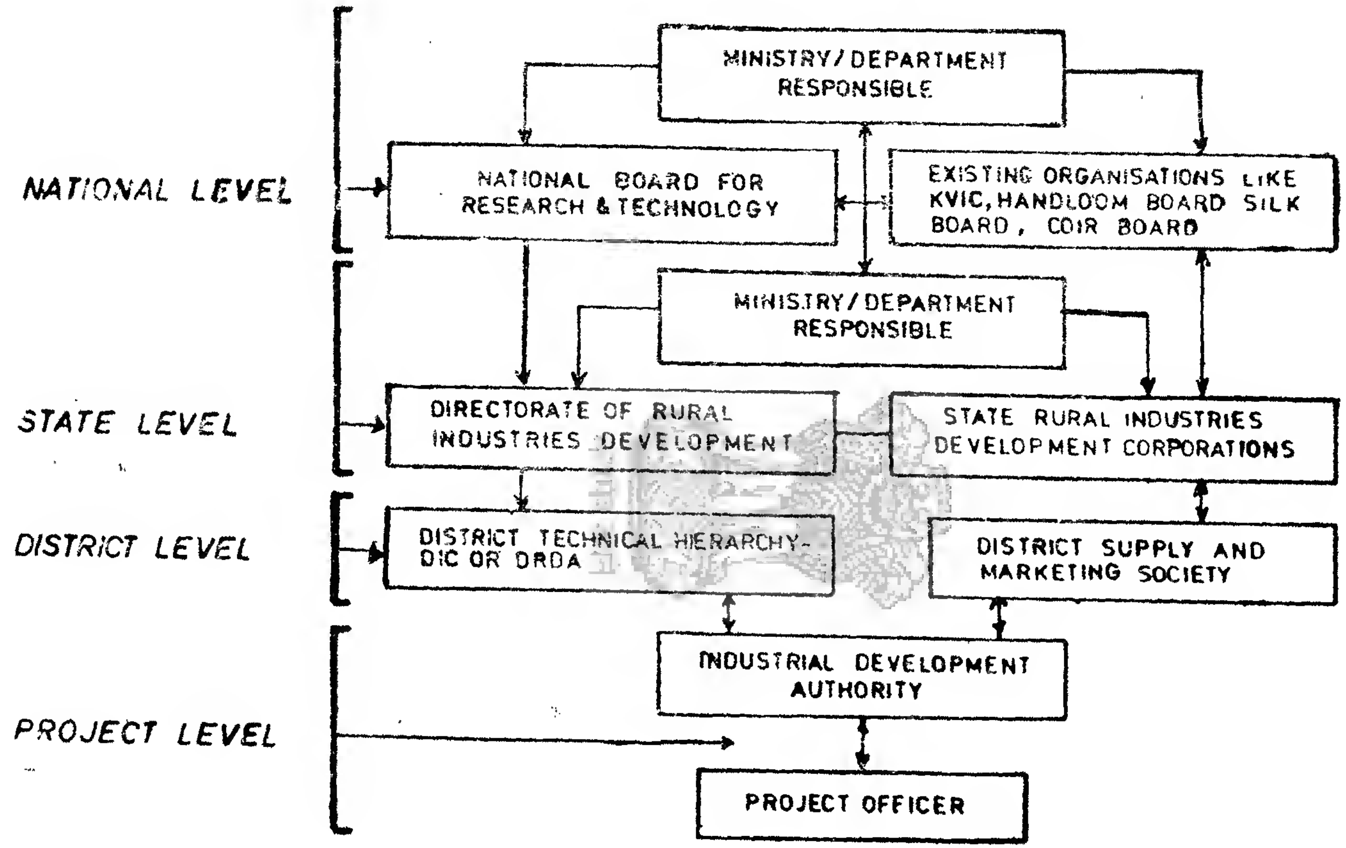
XXI. Saw Mills, Wood Work and Furniture and Fixtures.

XXII. Miscellaneous Industries

1. Cement Workers.
2. Bidi Making.
3. Apphalam Making.
4. Straw Packing.
5. Braiding
6. Stationery
7. Card Boards
8. Other Paper Products
9. Button Manufacture.
10. Sports Goods.
11. Plywood Making.
12. Katha Manufacturing.
13. Leather Workers.
14. Metal Workers.
15. Mine Workers.
16. Women's Societies.
17. Harijan Welfare.
18. Hosiery.
19. Garment Making.
20. Knitting and Tailoring.
21. Cutting and Polishing of Real and Artificial Gems and stones.

ANNEXURE - XIII

ORGANISATIONAL TIE-UP FOR VILLAGE & COTTAGE INDUSTRIES



ANNEXURE XIV

Equity Assistance

SFCs—Trends in Special Capital Assistance

(Amount Rs. in crores)

Year	Special capital raised	Assistance sanctioned	Assistance disbursed
1977-78	2.21	0.46	0.09
1978-79	0.13	0.87	0.30
1979-80	0.52	1.68	0.68
1980-81	2.81	1.71	1.42
1981-82	0.90	3.25	1.54
1982-83	1.05	2.70	1.71
1983-84	0.25	3.04	1.68
Cumulative upto end of March, 1984	15.27	14.22	7.63

Source: IDBI—Report on Development Banking in India—1983-84.

ANNEXURE XV

Sanction and Disbursement under the Seed Capital Scheme—IDBI

(Rs. in lakhs)

Year	Receipt of Applications		Sanctions		Disbursement
	No.	Amount	No.	Amount	Amount
Sept. 1976—Dec. 1978	62	202.07	38	130.15	26.34
Jan-Dec. 1979	43	190.82	33	141.26	87.54
Jan-Dec. 1980	53	201.65	46	168.14	137.20
Jan-Dec. 1981	82	519.57	59	266.79	101.84
Jan-Dec. 1982	129	1161.82	81	645.29	238.95
Jan-June 1983	87	701.76	69	504.92	290.30
July-1983—June 1984	NA	NA	142	1170.00	760.00
TOTAL	456	2977.69	468	3026.55	1642.17

Source: I.D.B.I.

ANNEXURE XVI

State Bank of India Equity Fund Scheme (EFS) (Cumulative Figures)

(Rs. in l

Year	No. of units assisted	Loans under E.F.S.	Other loans from the Bank to the assisted units	Aggregated project outlay of the assisted units
Dec. '79	83	23.8	206	269
Dec. 80	235	75.7	555	745
Dec. 81	416	153.3	1131	1713
Dec. 82	622	210.0	N.A.	2210
Dec. '83	764	280.0	N.A.	3000

Source: State Bank of India.

MGIPCBE—S4—2 PC/ND/87—14-6-88—2,000.